

Joint Stock Company
“The State Export-Import Bank of Ukraine”

Consolidated management report

Annual consolidated financial statements

*For the year ended 31 December 2020,
with independent auditor's report*

Translation from Ukrainian original

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**Consolidated management report
OF JOINT STOCK COMPANY
“THE STATE EXPORT-IMPORT BANK OF UKRAINE”**

(consolidated management report was prepared in accordance with the requirements of Article 40-1 of Law of Ukraine On Securities and Stock Market, the Regulation on Disclosure of Information by Securities Issuers approved by decision No. 2826 of the National Securities and Stock Market Commission of Ukraine (NSSMC) dated December 3, 2013, Law of Ukraine On Accounting and Financial Reporting in Ukraine, the Instruction on the Procedure for Preparation and Publication of Financial Statements of Banks of Ukraine approved by the NBU Board Resolution No. 373 dated October 24, 2011)

Joint Stock Company “The State Export-Import Bank of Ukraine” (hereinafter – Ukreximbank, “Ukreximbank”, JSC “Ukreximbank”, the Bank/bank or the issuer) was established in 1992. “Ukreximbank” performs its activity on the basis of Bank License No.2 dated August 7, 2019.

As of December 31, 2020 and 2019, 100% of “Ukreximbank” share capital was owned by the state. Functions on management of the state’s corporate rights in the Bank are performed by the Cabinet of Ministers of Ukraine.

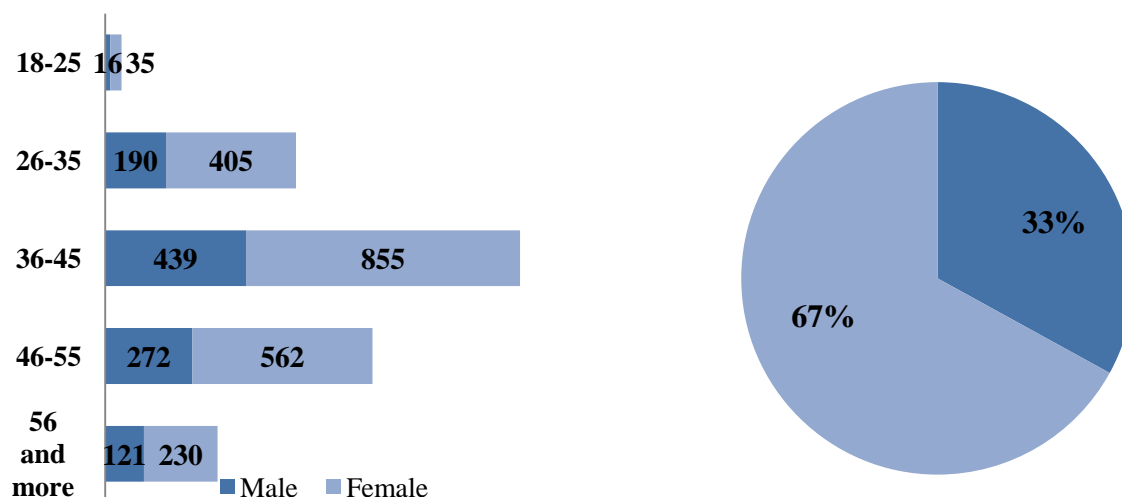
Head Office of “Ukreximbank” is located in Kyiv at the address: 127, Antonovycha Str. The Bank has 22 branches and 38 sub-branches (as of December 31, 2019 it had 22 branches and 38 sub-branches) and two representative offices in London and New-York. The Bank and its branches is a single legal entity.

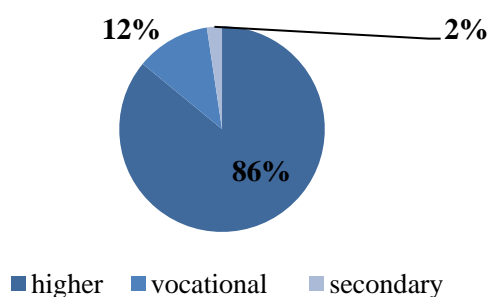
Historically, the key activity of “Ukreximbank” is servicing of export and import transactions. Currently, “Ukreximbank” has the diversified customer base, which includes significant number of large industrial and state-owned enterprises. “Ukreximbank” accepts deposits from individuals and legal entities, issues loans, provides payment services within Ukraine and carries out money transfers abroad, fulfils foreign exchange transactions, invests funds, performs servicing of the customers’ cash and settlement operations and renders other banking services.

One of the key “Ukreximbank” functions is facilitation of servicing, on behalf of the Government of Ukraine, of the loan agreements entered into by the Government of Ukraine and governments of other countries. “Ukreximbank” acts as an agent of the Government of Ukraine and carries out servicing of loans provided by international financial institutions in accordance with the terms and conditions of such agreements.

Human resources, employment, respect for human rights, intellectual capital and its use for the Bank goals achievement, anticorruption efforts

JSC “Ukreximbank” is a reliable employer in the financial sector of the country. The profile of the team and the profile of the Bank's employee are as follows:





GENDER	AGE	EDUCATION	TERM OF EMPLOYMENT AT THE BANK
FEMALE	41	HIGHER	11.5 YEARS

As of 31.12.2020 the total registered number of employees in JSC “Ukreximbank” system is 3125 employees.

In 2020 **HR-service** was established in the Bank, which corresponds to the modern business organization model. This structure ensures implementation of a comprehensive approach to personnel management: selection, personnel administration, adaptation, evaluation, training, development, personnel motivation and internal communications.

Within JSC “Ukreximbank” development strategy new **HR-strategy of JSC “Ukreximbank” for 2020-2022** was developed and approved, whose strategic goal is consistent implementation of transformational changes to personnel management as the basis for strengthening of the employer brand, building and maintaining highly professional, involved, loyal, motivated team of the Bank, which is able to respond flexibly to changes in the internal and external environment and ensure the Bank's leading position in the financial market.

During 2020 a **transparent recruitment mechanism** by competencies and professional requirements for positions was launched in personnel selection direction with the use of modern search tools. **Interview by competencies** with candidates for open positions have been implemented and conducted in accordance with the approved overall bank Competencies Model.

In the personnel evaluation direction in 2020 **the system of personnel evaluation** with the use of valid evaluation instruments was introduced and implemented according to world practices. **Competency profiles for employees of all types** of the Bank structural units and position levels were developed and overall bank Competencies Model was approved. As of 31.12.2020 more than 400 employees of the Bank have passed assessment centre.

In 2020 the Bank started building **the new personnel training and development system**. Within personnel training and development system:

- the process of implementation of new, modern remote on-line training platform has been started;
- analysis of personnel training needs was carried out and the main directions of training and development of structural units of the Bank in 2021 were determined;
- for the first time the process of development and organization of product training for business units of the Bank was started.

During 2020:

- the Bank employees completed training in 16 remote courses 9147 times;
- the Bank employees 227 times took part in 55 training events organized by external providers, including 26 times attended 12 international events.

As part of internal communication and the development of corporate culture, the process of **building a new corporate culture of the Bank** has begun, which is aimed at supporting the achievement of business strategic goals. A new mission and values of the Bank have been developed, which are aimed at supporting the implementation of the Bank's business strategy.

The establishment of a **system of horizontal and vertical internal communications** has been started, which will help to qualitatively cascade key messages of the Bank to employees. To strengthen the communications of the Bank's employees, an additional tool of internal communications, “Exim Daily News” telegram channel, was introduced.

A range of projects for support and further development of the corporate culture have been developed and implemented which are aimed at uniting the employees and strengthening of the corporate spirit. Among the implemented projects are “Exim Stream”, “Exim Christmas Fest”, “Exim Help”, “Good Store”. The participation of

the Bank's team in running marathons and “Velosotka” project was organized. Preparation of a range of projects to promote an active and healthy lifestyle has been started.

Respect for human rights.

In terms of respect for human rights the Bank in its activities is guided by the Constitution of Ukraine, strictly adheres to the legislation and regulations of Ukraine, regulations of the Bank, the Code of Conduct (Ethics) of JSC “Ukreximbank”, Anti-Corruption Program of Joint-Stock Company “The State Export-Import Bank of Ukraine”, namely:

- The Bank promotes a culture of respect to executives and employees of the Bank. Executives and employees of the Bank are provided with equal opportunities for professional development, implementation of labour rights and development of professional potential. The Bank's management takes measures aimed at protection of work and health of executives and employees of the Bank, creating the necessary conditions for their safe labour conditions and improvement of social welfare;
- The Bank does not allow any discrimination regarding the Bank's executives and employees on the grounds of race, colour, political, religious and other beliefs, gender, gender identity, sexual orientation, ethnic, social and foreign origin, or any other characteristics at the time of recruitment, remuneration, promotion;
- The main criteria for the appointment of executives and employees of the Bank to senior positions are their achievements and abilities. Every employee of the Bank has the right to nominate his / her candidacy for vacancies available in the Bank, provided that the qualification requirements are met.
- The Bank does not prosecute persons of any kind in its activities

The Bank does not use and does not support the use of labour of children who have not reached the minimum age established by labour legislation from which employment is allowed.

JSC “Ukreximbank” system annually sets working time norms according to five-day working week calendar which does not exceed 40 hours per week, with two days off on Saturday and Sunday, with mandatory observance of working time norms.

In accordance with the requirements of the applicable legislation of Ukraine, the Bank's employees are provided with various types of leave, in particular, annual leave (basic and additional for special work), additional leave in connection with studies, social leave (due to pregnancy and childbirth, childcare leave until the child reaches the age of three, for employees who have children, etc.), unpaid leave.

The Bank's employees support a healthy lifestyle by participating in external and internal activities aimed at an active lifestyle. Every employee of the Bank is provided with a voluntary health insurance policy.

In accordance with the requirements of the Law of Ukraine “On Prevention of Corruption” the Anti-Corruption Program of Joint Stock Company “The State Export-Import Bank of Ukraine” was approved and implemented in JSC “Ukreximbank” (order No. 270 dated 15.07.2015, hereinafter - the Anti-Corruption Program). The provisions of the above Anti-Corruption Program define the rights and responsibilities of bank employees related to prevention and combating of corruption in the activities of a banking institution. In order to supervise the implementation of the Anti-Corruption Program, the Bank has appointed Person Responsible for Prevention of Corruption.

In addition, in accordance with the requirements of Regulation on Organization of Risk Management System in Banks of Ukraine and Banking Groups (approved by Resolution of the Board of the National Bank of Ukraine No. 64 dated 11.06.2018) and to ensure effective actions to prevent corruption in structural units of the banking institution, in 2020 the following internal bank documents were developed and implemented in the bank:

- The Code of Conduct (Ethics) of JSC “Ukreximbank” approved by minutes of the Supervisory Board of the Bank No. 43 dated November 16, 2020,
- Policy for Prevention, Detection and Management of Conflict of Interest in JSC “Ukreximbank” approved by the minutes of the Bank's Supervisory Board No. 37 dated October 1, 2020
- Procedure for Conducting Internal Investigation in system of JSC “Ukreximbank”.

Technological resources and their use to achieve the bank goals

In 2020 JSC “Ukreximbank” carried out active transformation of its IT activities in order to achieve the required level of information technologies development to build a modern digital efficient bank that ensures the loyalty of digital users of its services and a sufficient level of reliability and security of IT infrastructure and flexibility of implementation of new technologies and systems according to business requirements.

As part of IT transformation process, in August 2020 the IT Strategy of JSC “Ukreximbank” for 2020-2022 was developed and approved by the Bank's Management Board. For the first time, IT Committee was established to coordinate the IT development consistent with the Bank's strategy, to ensure the efficient use of financial and non-financial resources taking into account the expected results of benefits and risks, and to manage priorities during IT projects implementation in order to achieve the required financial results of activities of structural units, make agreed decisions on IT projects portfolio taking into account the business needs of the Bank.

At this time, the bank started a project office, implemented the Change Management process within ITIL processes, approved a workplace strategy, conducted an audit of IT infrastructure, developed a detailed plan for the development of IT infrastructure and data centres. 22 business projects were implemented, among which the PaperLess project already saves up to 41.5 thousand sheets of paper per month.

In conditions of new challenges, in particular related to the COVID-19 pandemic, the bank in a short time in the beginning of 2020 introduced a set of technologies that allow remote interaction with customers, contractors and partners through electronic communication channels, and provided a secure infrastructure of remote work of the bank employees.

To minimize the need to visit the bank by clients - legal entities, services for the exchange of legally significant documents with counterparties in electronic form with QES through the iFOBS remote service system were implemented for the first time (including the conclusion of deposit agreements).

The iFOBS remote customer service system has been supplemented with services for work with corporate payment cards, the ability for corporations to manage the accounts of their subordinate companies and the service of displaying foreign economic contracts of customers. The service of customer auto-notification about the need for re-scheduled planned identification has also been introduced.

For the first time the bank offered Enter EXIM mobile banking services to individual customers, the number of users of relevant mobile application in the first year of launch exceeded 110 thousand people.

The introduction of the service of sending Push-messages on transactions of individuals provided the bank with saving of up to UAH 0.3 million a month compared to sending of sms-messages.

An important milestone in the development of IT of the Bank was the introduction of a complete set of modules of B2 Core Banking, necessary for decommissioning of BIS GRANT which was temporarily used in parallel. It became possible due to implementation in B2 Core Banking of functionality of “Forex” and “Interface with SWIFT system” modules with the use of SWIFT IPLA. The introduction of the latter allowed providing 100% level of confirmation of cross-border payments within mandatory requirement of SWIFT Universal Confirmation.

Way4 processing centre provides reliable continuous functioning of card processing in 24x7 mode in cooperation with Visa, Mastercard, American Express IPS and “Prostir” NPS. In the system which completely complies with PCI DSS, apart from basic functionality of card processing, GooglePay/ApplePay, Purchase with CashBack, PIN Delivery by SMS technologies are also implemented. 3D Secure 2.1 technology for acquiring Mastercard cards is implemented (increase of security and comfort when paying online due to use of biometrics instead of entering one-time passwords). Migration to 8-digit BIN of cards is implemented which reduced costs for support in IPS. Acceptance of contactless American Express cards at POS-terminals is provided, which is favourably received by trade and service enterprises in the conditions of quarantine restrictions. At the same time, the system serves not only JSC “Ukreximbank”, but also a number of affiliate banks that do not have their own processing system.

As part of the development of the bank's external website, new types of calculators for bank loan products have been introduced, which are convenient for customers.

All physical servers of the bank work in VMware virtual environment, which provides efficient use of server capacity and allows virtualized servers to work in a fault-tolerant configuration.

JSC “Ukreximbank” uses modern tools for protection of electronic information from network attacks, virus attacks, protection against SPAM, etc.

2020 Awards

Award "20 years of partnership", Mastercard

Mastercard payment system recognized Ukreximbank a special award "20 years of partnership" for the development of the card payment industry.

STP Quality Award, Raiffeisen Bank International AG Group

For the first time, Ukreximbank received an award from Raiffeisen Bank International AG, headquartered in Vienna (Austria), based on the results of commercial and interbank settlements in 2020. With this award, the Raiffeisen Financial Group annually recognizes the best correspondent banks with a significant amount of cross-border settlements.

Award "For sustainable partnership in the development of non-cash payments", Visa

The Visa payment system awarded Ukreximbank with the award "For sustainable partnership in driving cashless" for the development of a world-class Cashless ecosystem.

"Banks of the Year". Financial Club Media Project

Ukreximbank won the Banks of the Year rating in the Corporate Bank category.

All-Ukrainian competition "Bank of the Year - 2020" from the "Banker" International Financial Club

Ukreximbank won in the nomination "Reliable partner of medium-sized business and municipalities".

"The safest banks 2020 worldwide"

Ukreximbank entered the rating of Global Finance.

"Rating of the best banking products", Prostobank

The terms of Ukreximbank's deposits were recognized as the best for business in Q2 2020. "Deposit with monthly interest payment" from the state-owned bank ranked the first in the rating.

"The best deposits for business in 2020 Rating", Prostobank Consulting

At once two types of deposits of Ukreximbank for business topped the rating of banking products by the end of the year. The monthly interest payment deposit and the end-of-term interest deposit ranked the first and the second in the rating "Best deposits for business 2020". The study was conducted on the basis of quarterly estimates of savings deposits of the Top-10 banks in Ukraine.

Moody's upgrades JSC "Ukreximbank" rating

On December 18, 2020, Moody's Investors Service (Moody's) upgraded the rating of long-term foreign currency deposits of JSC "Ukreximbank" to B3 from Caa1.

Moody's upgrades JSC "Ukreximbank" rating

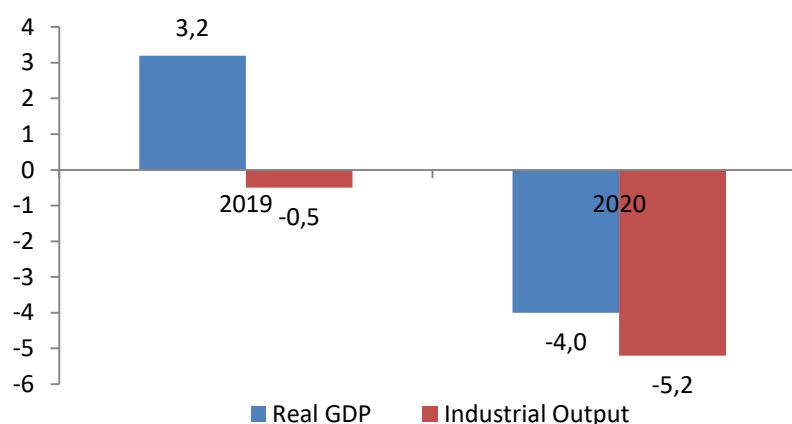
On October 13, 2020, Moody's Investors Service (Moody's) upgraded to a bank baseline credit assessment (BCA) to caa1 from caa2 and upgraded its foreign currency debt subordinated liabilities to Caa1 from Caa2.

Nature of business (external environment summary, where the Bank performs its activities, brief summary of the existing business model, core products and services).

External environment summary

In 2020, the global economy and, in particular, the banking sector of Ukraine entered a period of recession caused by the global fight against the spread of COVID-19. The scale of the economic crisis has resulted in a significant reduction in business profitability and income of both individuals and business entities. Restrictive measures imposed through the COVID-19 pandemic by most countries and the Ukrainian government are expected to have a lasting negative impact on economic activity. At the same time, by the end of 2020, real GDP decreased by 4.0%. This is much less than expected at the beginning of the coronary crisis (6%). Ukraine's economy recovered rapidly in the second half of the year. After the hard phase of quarantine, the decline in real GDP slowed to 3.5% yoy in the third quarter and continued to slow in the fourth quarter (1.5% yoy). The tightening of quarantine measures in November had a limited impact on business activity. The rapid recovery of the economy is primarily due to the recovery in the industry against the background of optimism associated with the start of vaccination against COVID-19 in some countries, as well as growing consumption.

Real GDP and industry growth rate in 2019 - 2020



Source: The State Statistics Service of Ukraine

In 2020, inflation was 5%. Falling world energy prices, as well as declining demand for non-essential goods and services, restrained rising prices during the pandemic. At the same time, at the end of the year, inflation accelerated as expected. This was due to the dynamic recovery of the global economy, further growth in domestic consumer demand, as well as rising energy prices and certain food products. As a result, in December, inflation returned to the target range and reached its central point.

The increase in wages and social expenditures kept consumer demand high. Unemployment also began to decline. Public consumption made a significant contribution to economic recovery given the increase in current budget expenditures on infrastructure, primarily road repairs (expenditure growth rate was 110.6% yoy), as well as health care (although in 2020 expenditures were lower than the same indicator in 2019, in 2020 they increased by 70 percentage points).¹

Key macroeconomic indicators in 2019-2020

Indicators	As of December 31, 2019	As of December 31, 2020
Real GDP, change in %	3,2	(4,0) ²
Consumer price index (CPI), change in % (up to December of current year)	4,1	5,0 ³
Industrial output, change in % (up to December of current year)	(0,5)	(5,2) ²
Recorded unemployment, % (according to ILO methodology)	8,6	9,5 ⁴
The NBU international reserves, USD bln.	25,3	29,1 ⁵
Official exchange rate of Hryvnia to US Dollar, UAH/USD	23,69	28,27 ⁶

*MDETAU and the NBU

Source: The State Statistics Service of Ukraine, the National Bank of Ukraine

The current account surplus in 2020 reached one of the largest levels in the history of Ukraine - 4.4% of GDP. Fairly high commodity prices, strong global demand for food and IT services, and China's rapid economic recovery have supported Ukrainian exports. In particular, due to increased supplies to China, iron ore exports reached the highest value in history - 46.3 million tons (in monetary terms + 24.8% compared to 2019 - up to USD 4.24 billion⁷). Exports of IT

¹ <https://bank.gov.ua/ua/news/all/inflyatsiyniy-zvit-sichen-2021-roku>

² <https://bank.gov.ua/ua/statistic/macro-indicators>

³ <http://www.ukrstat.gov.ua/>

⁴ <http://www.ukrstat.gov.ua/>

⁵ https://bank.gov.ua/ua/statistic/sdds/sdds-data#ir_fcl

⁶ <https://bank.gov.ua/ua/markets/exchangerates?date=31.12.2020&period=daily>

https://bank.gov.ua/admin_uploads/article/MM_2020-12.pdf?v=4

https://bank.gov.ua/admin_uploads/article/IR_2021-Q1.pdf?v=4

https://bank.gov.ua/admin_uploads/article/IR_2020-Q3.pdf?v=4

⁷ <http://www.ukrstat.gov.ua/>

services increased by 21% compared to the same period in 2019 (USD 5.2 billion). The volume of remittances from migrant workers exceeded this figure in 2019 by USD 0.2 billion and amounted to USD 12,121 billion. At the same time, imports decreased significantly - by 14.7%⁸. Thus, due to lower prices for most of the year and accumulated reserves, gas purchases decreased (-1.73 billion US dollars)⁸. Due to uncertainty with the pandemic, investment imports decreased (-21.7%). As a result of the formation of negative reinvested earnings (-USD 4.6 billion or -141% compared to 2019⁹), payments on primary earnings decreased. Ukrainians' travel expenses abroad decreased significantly (USD -4.7 billion)⁸. Ukraine's international reserves grew by 15% (equivalent to USD 29.1 billion) in 2020. This is a record for the last eight years. The NBU succeeded in increasing international reserves by a total of USD 3.8 billion during the crisis due to a consistent policy in the foreign exchange market. In particular, despite the fact that in March 2020 the net sale of foreign currency by the central bank amounted to USD 2.2 billion, the regulator smoothed fluctuations towards the devaluation of Hryvnia during the introduction of quarantine measures - net foreign exchange purchases for the year exceeded USD 1 billion¹⁰.

Balance of Payment of Ukraine in 2019 - 2020, USD million¹¹

<i>Balance of Payment Accounts</i>	<i>As of December 31, 2019</i>	<i>As of December 31, 2020</i>
<u>A. Current Account</u>	(4 124)	6 583
<u>B. Capital Account</u>	38	(2)
<u>C. Financial Account</u>	(10 066)	4 602
<u>D. Overall Balance (= A + B - C)</u>	5 980	1 979

Source: the National Bank of Ukraine

During 2020, the NBU rapidly reduced the discount rate, and at the end of the year it was 6%. The accelerated easing of monetary policy was due to the fact that consumer and investment demand is likely to remain suppressed longer than previously predicted. The NBU's active easing of monetary policy is intended to support the economy in the phase of gradual reduction of quarantine restrictions. The real key rate has crossed the neutral level. This indicates that monetary policy has become stimulating. Given the low inflation, this contributed to a faster recovery of the economy from the effects of the corona crisis. The weighted average Hryvnia rates on loans and deposits of banks continued to decrease: Thus, during 2020 the weighted average Hryvnia rates on NFC loans decreased to 9.2% per annum (by 4.8 percentage points), on household loans - to 29.9% per annum (by 3.6 percentage points), on NFC deposits - up to 3.7% per annum (by 4.9 percentage points), on household deposits - up to 7.6% per annum (by 5.8 percentage points.) At the same time, given the deterioration of inflation expectations, as well as increasing fundamental pressure on prices from consumer demand, the NBU may raise the discount rate (if the impact of these negative factors is not offset by a significant inflow of capital).

Existing Business Model

Existing business model envisages:

- focusing on ongoing implementation of the programs together with IFIs under lending projects to the export-oriented enterprises;
- expanding the number of commercial banks, to which financing is provided under the IFI programs;
- focusing on existing and attraction of new customers for servicing of their export-import transactions and for provision of consultation support;
- expansion of corporate customer base;
- retaining individual customers with significant account balances.

At its meeting on December 9, 2020, the Cabinet of Ministers of Ukraine approved the Development Strategy of the State Export-Import Bank of Ukraine. The updated strategy is aimed at implementing the "Main Areas of Ukreximbank's activities for 2020-2024" and provides for a comprehensive transformation, which is based on three components, in particular, the business model, the operating model and financial stability.

According to the business model, the bank will focus on its core business, in particular, export-import companies and state-owned enterprises, as well as reducing the cost of servicing the non-target customers. The operational model

⁸ <https://bank.gov.ua/ua/news/all/inflyatsiyniy-zvit-sichen-2021-roku>

⁹ <https://bank.gov.ua/ua/statistic/sector-external/data-sector-external>

¹⁰ <https://bank.gov.ua/ua/news/all/u-2020-rotsi-mijnarodni-rezervi-ukrayini-zrosli-do-vosmirichnogo-maksimumu>

¹¹ <https://bank.gov.ua/ua/statistic/sector-external/data-sector-external>

involves process optimization and radical digitalization with a reduction in physical presence. Financial stability will be achieved by focusing on improving one's position with capital and long-term financial recovery through optimizing the balance sheet by reducing costs and increasing revenues. The bank will also work on capital recovery by resolving the situation with non-performing assets¹².

Eco-responsibility

The Bank contributes to improving the energy efficiency of the Ukrainian economy and defines the financing of projects in the field of environmental protection and introduction of energy-saving technologies as one of its important activities. JSC «Ukreximbank» adheres to the responsible financing policy and pays attention to the environmental component, in particular:

- Applies environmental and social risk assessment procedures in respect of loan projects;
- Does not provide financing to socially hazardous and environmentally harmful industries;
- Implements initiatives aimed at reduction of the negative impact of business activities on the environment, etc.

The environmental and social management system is integrated into the bank lending activities. The assessment of environmental and social risks is carried out at the stage of review of loan projects, and monitoring of such risks is carried out at the stage of their administration. Remote training courses are arranged on a regular basis to ensure that the Bank's employees are adequately informed of the current risk assessment system.

The Bank regularly conducts training seminars for representatives of enterprises of different sectors of the economy and participates in representative activities to promote energy efficiency programs and encourage investment in this field.

Core products and services

Core products and services of the banking institution are:

- loans
- deposits
- cash and settlement services
- payment card transactions
- securities transactions
- trade finance transactions
- factoring
- services provided using remote servicing systems (Client-Bank system, internet banking, mobile banking).

The goals of management and strategies for achievement of these goals (information about priority of actions for achievement of results, highlighting of activities in the area of research and development)

The strategic goals and priorities of the Bank for 2021– 2024 are, in particular:

- to become a leading bank for export-import financing and corporate lending in Ukraine, in particular by retaining existing customers and attracting new ones to service their export-import transactions, as well as consultancy support;
- to ensure efficient and profitable operation of the bank as a leading provider in the Ukrainian financial sector of a wide range of corporate banking services for state-owned enterprises, large enterprises, medium-sized enterprises (including strategic for the state areas), cooperation with municipalities, united territorial communities and utilities;
- to carry out digitalization and automation of core business processes in order to increase their economic efficiency;
- to reduce the volume of the loan portfolio in non-strategic sectors and reduce the cost of servicing for the non-target customers;
- to create the stable mechanisms for funding the bank transactions, taking into account the current situation in the loan and money markets and the priority of reducing the cost of loan funds and other debt instruments, which will be offered by the bank;
- to borrow funds of international financial institutions on economically favorable terms and conditions;
- Participate actively in national and international programs to support key sectors of the economy.

¹² <https://www.eximb.com/ua/bank/press/novyny-banku/uryad-shvalyv-strategiyu-rozvytku-derzhavnogo-ukreksimbanku.html>

The Bank is focused on the following priorities:

- in terms of asset-side transactions - lending to large corporate customers (about 96% of the loan portfolio), medium-sized enterprises and utilities with a simultaneous reduction in investments in government securities (government bonds) and NBU certificates of deposit;
- in terms of liability-side transactions - diversification of funding sources (individuals and legal entities and individuals, CMU, external borrowings, long-term IFI funds).

Key financial recourses, use thereof for achievement of goals (equity structure, financial mechanism, liquidity and cash flows)

Since 2016, JSC «Ukreximbank» has been defined by the NBU as a systemically important bank, which corresponds to the high status of the bank in the banking system of Ukraine and at the same time puts forward some increased requirements to ensure the safety margin, in particular:

- formation of a buffer of systemic importance in addition to the standard value of N3 in the amount of 1.5% (buffer implementation is suspended due to a pandemic);
- development of a business recovery plan to resume activities in accordance with the requirements of the NBU in order to quickly stabilize the crisis;
- compliance with the enhanced N7 at a level of not exceeding 20%.

In the reporting year, Ukreximbank had a sufficient level of equity, successfully used diversified sources of funding to create a reliable liquidity reserve, timely and in full provided repayment of the borrowed funds.

The Bank equity capital was formed mainly through the share capital, which amounted to UAH 45.57 bln. as of December 31, 2020. In 2020, in accordance with Resolution of the Cabinet of Ministers of Ukraine № 881 dated September 23, 2020, the share capital of JSC «Ukreximbank» was increased by UAH 6.84 billion. To this end, the Ministry of Finance issued government bonds for the specified amount for a period of 15 years with a yield of 9.3% per annum (in exchange for shares of additional issue).

Equity structure of JSC «Ukreximbank»

Equity	31.12.2020	31.12.2019	UAH, thousand Dynamics
Share capital	45,570,041	38,730,042	6,839,999
Revaluation reserves	525,683	337,779	187,904
Result from transactions with the shareholder	635,104	635,104	-
Accumulated deficit	(36,589,390)	(30,948,626)	(5,640,764)
Reserve and other funds	207,458	162,926	44,532
Total equity	10,348,896	8,917,225	1,431,671

Liquidity

In order to achieve the set goals for project financing, the long-term financing from the EIB in the total amount of EUR 182 million has been attracted.

Within the framework of lending to small and medium-sized businesses, the Bank successfully implements joint programs with international financial institutions (EIB, EBRD, IBRD), participated in a new joint program with the Entrepreneurship Development Fund for a total amount of UAH 52 million.

In order to optimize the structure of the Bank balance sheet, a partial redemption of bonds issued under the LPN scheme on international capital markets in the amount of USD 300 million was performed. The total savings in future interest expense as a result of the redemption amounted to USD 35.5 million.

Liabilities of JSC «Ukreximbank» increased by UAH 51 billion (or 39%). The key factors in increasing were:

- increase of the client's funding base by UAH 39 billion equivalent or by 51% due to an increase in: current accounts of legal entities (UAH +16 billion equivalent or 40% of the total growth of the client's funding base); current accounts of budget funds (UAH +5 billion equivalent or 13% of the total growth of the client's funding base); time deposits of legal entities (UAH +15 billion equivalent or 40% of the total growth of the client's funding base)
- increasing the volume of borrowing funds from MFIs by UAH 4 billion equivalent or 20%;
- getting a refinancing loan from the NBU in the amount of UAH 16 billion

At the same time, during the reporting period, the Bank partially redeemed bonds issued under the LPN scheme on international capital markets in the amount of USD 300 million, as well as made the scheduled repayment of sub-debt in the amount of USD 73 million. The measures taken to restructure the Bank's liabilities helped to reduce the cost of funding.

During the year, the Bank increased funding from EIB, EBRD and other international financial institutions.

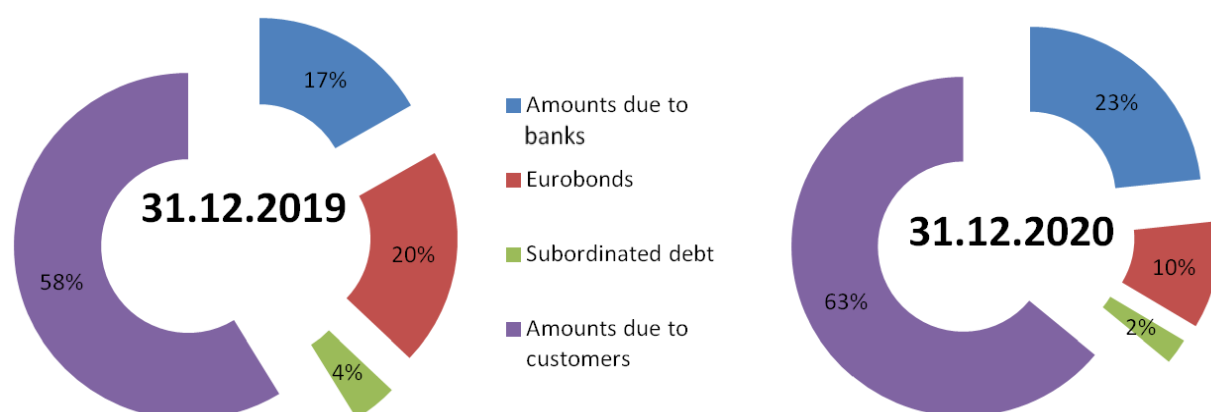
Liabilities of the Bank

UAH, thousand

<i>Liabilities</i>	<i>31.12.2020</i>	<i>31.12.2019</i>	<i>Changes</i>	
			<i>absolute value</i>	<i>%</i>
Amounts due to the National Bank of Ukraine	16,008,768	-	16,008,768	100%
Amounts due to customers	115,581,838	76,621,910	38 959,198	51%
Amounts due to credit institutions	26,119,028	21,825,762	4,293,266	20%
Eurobonds issued	18,537,152	26,553,076	(8,015,924)	-30%
Subordinated debt	4,341,176	5,429,914	(1,088,738)	-20%
Provision for credit-related commitments	135,531	49,062	86,469	176%
Other liabilities	1,803,616	949,375	854,241	90%
Total liabilities	182,526,379	131,429,099	51,097,280	39%

The most important item in the Bank's liabilities structure is amounts due to customers, the share of which increased from 58% to 63% during 2020. The share of Eurobonds and subordinated debt during the reporting year reduced from 20% to 10% and from 4% to 2% correspondingly.

Main changes in the liabilities structure



The Bank channels the borrowed funds for financing the real sector of the Ukrainian economy:

- provides long-term loans on competitive terms to borrowers of strategically important industries (mechanical engineering, transport, fuel and energy industry, chemical industry, agriculture, etc.);
- implements programs of international financial organizations;
- supports exporters;
- promotes energy efficiency of domestic enterprises.

Key performance indicators of JSC “Ukreximbank”

<i>Indicators</i>	<i>31.12.2019, UAH, million equivalent</i>	<i>31.12.2020, UAH, million equivalent</i>	<i>Growth rate, %</i>	<i>Market share as at 31.12.2020</i>	<i>Market position as at 31.12.2020</i>
Assets	140,346,324	192,875,275	37%	11%	3
Loans to customers	53,285,804	48,608,320	-9%	8%	3
Liabilities	131,429,099	182,526,379	39%	11%	3
Amounts due to customers	76,621,910	115,581,108	51%	8%	4
Equity	8,917,225	10,348,896	16%	5%	4
Profit	65,280	(5,591,367)	-8665%	-	-

During 2020 JSC “Ukreximbank” actively implemented state measures aimed at revitalizing the development of the Ukrainian economy, participated together with IFIs in joint export-oriented projects, programs of energy efficiency, energy saving and modernization of domestic enterprises:

- Ukravtodor JSC bonds issued under state guarantees in the amount of UAH 19.24 billion were redeemed within the framework of financing the state road renovation program in Ukraine.
- Projects of clients - small and medium business enterprises were financed at the expense of the Fund for Entrepreneurship Development in the amount of UAH 52 million.
- Within the framework of the Cooperation Agreement, cooperation with the China Export and Credit Insurance Agency (SINOSURE) was continued with a total financial insurance limit of USD 500 million. The aim is to develop international trade and support key sectors of the Ukrainian economy.
- Continued to implement the *Belarusian Import* program, in the framework of which Ukrainian enterprises of different industries can obtain a loan for purchase of machinery and equipment of the Belarusian production with the loan rate compensation.
- JSC «Ukreximbank» once again acted as coordinator in a joint project of Ukraine and the European Investment Bank (EIB) aimed at supporting of SMEs working in the agricultural sector of economy (+EUR 224 million).

The Bank may from time to time consider the possibility of redemption of issued Eurobonds, as the case may be, through the direct redemption from the market or otherwise taking into account the market price and market liquidity.

Assets of JSC “Ukreximbank” increased by 37% in 2020. Along with the impact of exchange rate differences, highly liquid assets and investments in investment securities increased.

An integral part of the Bank lending policy was minimization of risks, improvement the quality of the loan portfolio and customer service, provision for the adequate level of loans yield.

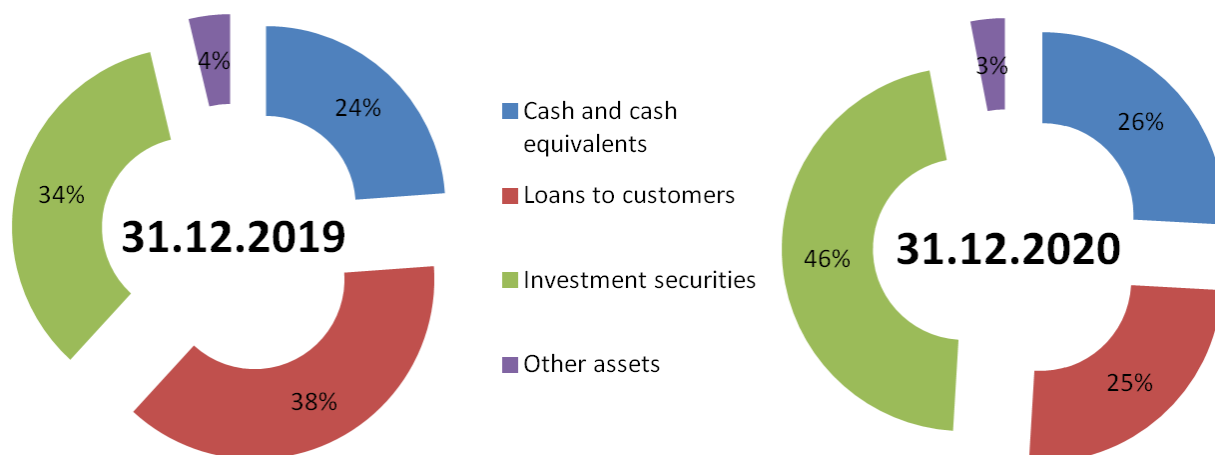
Assets of the Bank

<i>Assets</i>	<i>31.12.2020</i>	<i>31.12.2019</i>	<i>Changes</i>	
			<i>absolute value</i>	<i>%</i>
Cash and cash equivalents	49,912,943	33,469,935	16,443,008	49%
Loans to customers	48,608,320	53,285,804	(4,677,484)	-9%
Investment securities	88,726,654	48,365,848	40,360,806	83%
Other assets	5,627,358	5,224,737	402,621	8%
Total assets	192,875,275	140,346,324	52,528,951	37%

The share of investment securities for the reporting year increased by 12 p.p. up to 46%. This is explained by: 1) the purchase of Ukravtodor corporate bonds, the obligations of which are secured by a state guarantee; 2) recapitalization of the Bank by UAH 6.8 billion; 3) investments in government bonds denominated in foreign currency.

The share of highly liquid assets in 2020 increased by 2 p.p. up to 26%, and the most risk assets (loans to customers) - decreased by 13 p.p. up to 25%.

Main changes in the assets structure



The main performance results and prospects of further development (financial and non-financial indicators enabling to understand the major trends and factors that impact the business, the Bank performance results, its connection to the goals of the managements and the strategies of achieving these goals, analysis of significant changes in financial standing, liquidity and performance results, the reasons of change of indicators during the accounting period, the intention of the Bank strategy implementation in the longer term)

JSC «Ukreximbank» follows a consistent, prudent and conservative policy as related to assets formation, timely and in full represents deductions to provisions under the loans to customers. The Bank takes care of the balanced assets structure, optimal for reliable conduct of customer transactions and financing of the real economy sector. The liquidity level continuously remains adequate for fulfillment of all liabilities.

As related to the business model strategic transformation the Bank performed gradual exit from the retail market (in line with the Strategic directions of the Bank activities designed by the Cabinet of Ministers and the Principles of State Banking Sector Strategic Reforming).

Actions taken by the Bank for this purpose in the last years:

- optimization of the retail chain and respective number of employees;
- review of the retail product line and cancellation of low efficiency retail products;
- re-focus on large retail customers segment in retail business.

The destabilization of the economy caused by COVID-19 had a negative impact on the banking system performance.

JSC «Ukreximbank» performance

According to the results of the reporting year 2020, JSC «Ukreximbank» suffered a loss of UAH 5.6 billion. Despite the unprofitable activity for the reporting year, the Bank maintained its position in the TOP-3 largest banks in terms of net assets, loans to customers and liabilities.

In 2020, the Bank transferred dividends in the amount of UAH 19.1 million to the State Budget of Ukraine.

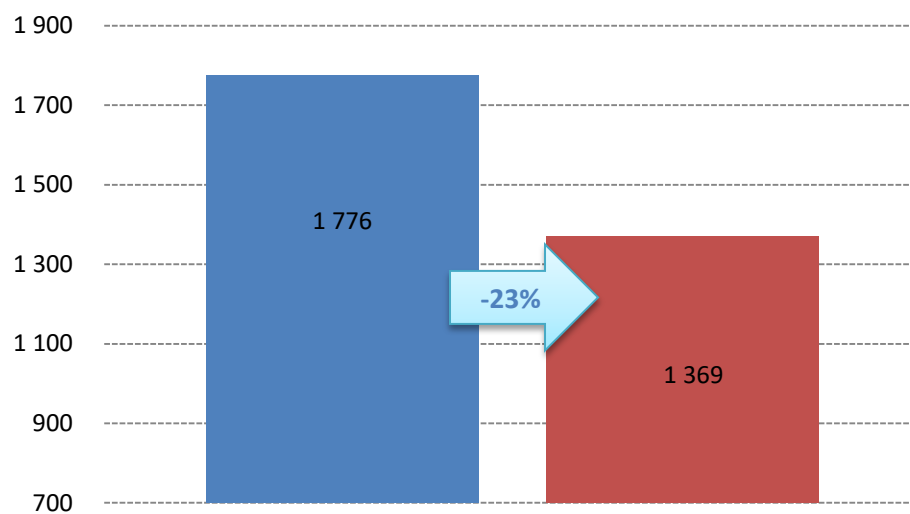
The main factors of the Bank unprofitable activity in 2020 were taking credit risk management measures (the amount of provisions for non-performing loans provided during 2006-2014 amounted to more than UAH 4.3 billion, which is 50% more than in the previous reporting period), as well as volatility of foreign exchange rates (exchange rate differences amounted to - UAH 4.4 billion).

UAH thousand

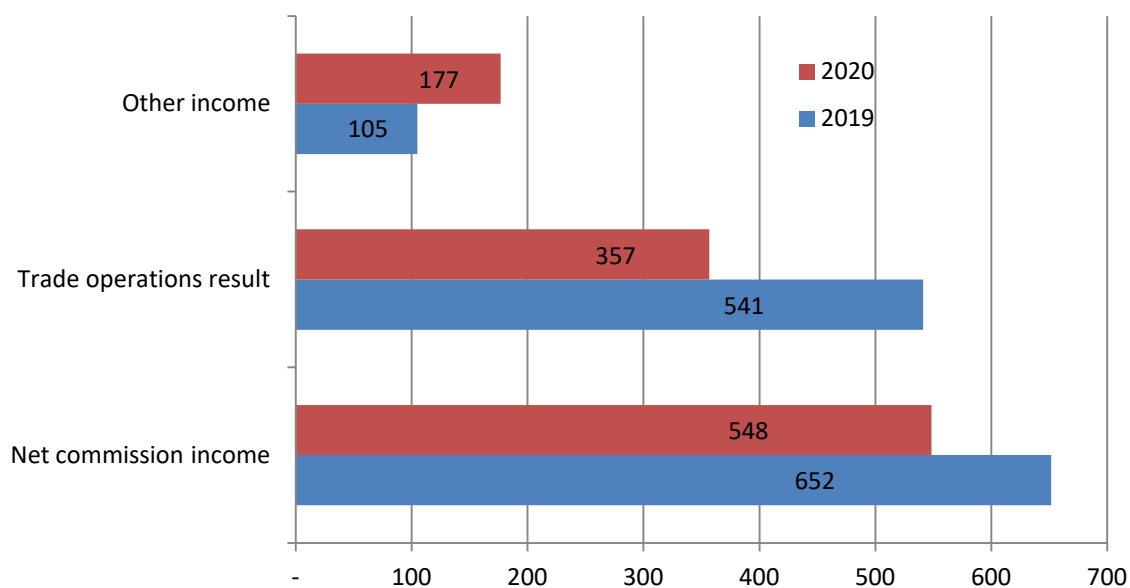
Indicator	2019	2020	Change		Structure, %	
			Absolute value	%	2019	2020
Net interest income	1,775,668	1,369,288	(406,380)	-22.9%	58%	56%
Interest income	11,568,804	10,032,745	(1,536,059)	-13.3%	100%	100%
Loans to customers	7,230,491	5,314,246	(1,916,245)	-26.5%	62%	53%
Securities	3,566,198	3,845,192	278,994	7.8%	31%	38%
Amount due from credit institutions	349,279	459,676	110,397	31.6%	3%	5%
Finance leasing	422,836	413,631	(9,205)	-2.2%	4%	4%
Interest expenses	(9,793,136)	(8,663,457)	1,129,679	-11.5%	100%	100%
(4,537,990)	(4,537,990)	(4,052,055)	485,935	-10.7%	46%	47%
Amount due to customers	(3,469,631)	(2,843,033)	626,598	-18.1%	35%	33%
Eurobonds issued	(1,441,216)	(1,070,778)	370,438	-25.7%	15%	12%
Amount due to credit institutions	(339,913)	(437,746)	(97,833)	28.8%	3%	5%
Subordinated debt	(2,877)	(258,731)	(255,854)	8893.1%	0%	3%
Other interest expenses	(1,509)	(1,114)	395	-26.2%	0%	0%
Net non-interest income	1,298,015	1,081,650	(216,365)	-16.7%	42%	44%
Net commission income	651,788	548,311	(103,477)	-15.9%	21%	22%
Commission income	1,082,054	877,052	(205,002)	-18.9%	35%	36%
Commission expenses	(430,266)	(328,741)	101,525	-23.6%		
Trade operations result	541,344	356,692	(184,652)	-34.1%	18%	15%
Other income	104,883	176,647	71,764	68.4%	3%	7%
Net operating income	3,073,683	2,450,938	(622,745)	-20.3%	100%	100%
Operating expenses	(2,380,836)	(2,467,716)	(86,880)	3.6%	100%	100%
Personnel expenses	(1,520,639)	(1,496,732)	23,907	-1.6%	64%	61%
Depreciation and amortisation	(111,058)	(114,177)	(3,119)	2.8%	5%	5%
Other operating expenses	(749,139)	(856,807)	(107,668)	14.4%	31%	35%
Operating income	692,847	(16,778)	(709,625)	-102.4%		
Revaluations results	2,921,018	(801,850)	(3,722,868)	-127.5%		
Expenses for provision and modification of financial instruments	(2,979,287)	(4,496,878)	(1,517,591)	50.9%		
Profit before tax	634,578	(5,315,506)	(5,950,084)	-937.6%		
(569,298)	(569,298)	(275,861)	293,437	-51.5%		
Income tax expenses						
Net profit	65,280	(5,591,367)	(5,656,647)	-8665.2%		

The decrease in the Bank interest income from loans to customers was simultaneously influenced by the following main factors: taking measures for problem loans workout, a large amount of provision; reduction of interest rates in the banking system as a whole (by 4.8 percentage points on NFC loans and by 3.6 percentage points on household loans for the year); economic crises developments caused fee by the pandemic. This contributed to a decrease in the Bank interest income from loans to customers by 26.5%. Despite the measures taken by the Bank to optimize the structure of assets and liabilities, sources of formation of the term funding base of acceptable value in the domestic and foreign markets, which reduced interest expenses by 11.5%, **net interest income** in 2020 decreased by UAH 406 million or 23%.

Net interest income, UAH mln.

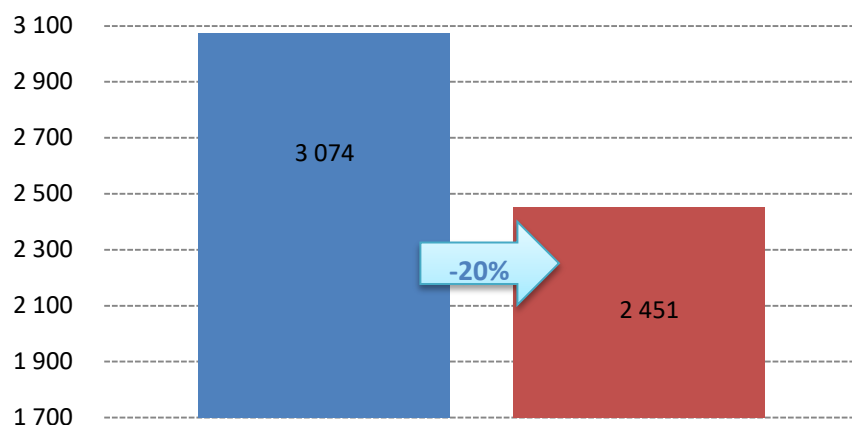


As related to the **non-interest income** a net commission income (-UAH 103 million or -16%) and trade operations result (-UAH 185 million or -34.1%) reduced. The growth of other income by UAH 72 million or by + 68% could not mitigate the impact of the reduction of other components of non-interest income.



Net operating income of JSC “Ukreximbank” decreased by - UAH 623 million.

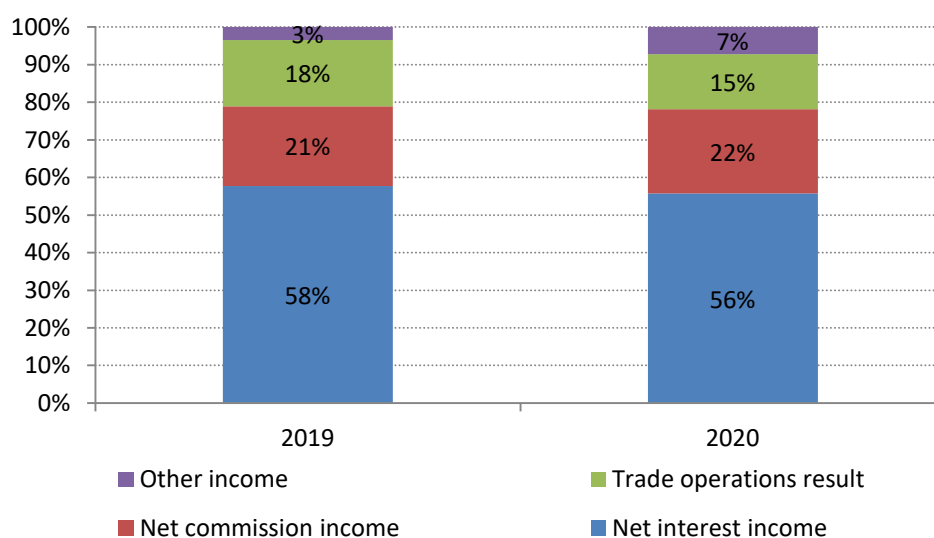
Net operating income, UAH, mln.



In the future, the Bank expects an increase in operating profitability due to:

- NPL workout improvement (repayment of problem loans at the expense of borrowers, sale of pledged property);
- optimization of the balance sheet structure (repayment of part of the high value liabilities).

Net operating income components



The interest transactions income prevails in the net operating income structure of the Bank. It is likely that this income structure will continue. Taking measures aimed at improving the loan portfolio, restructuring problem debts, reducing the value of the Bank's funding base will lead to an increase in interest margins. So, the Bank does not expect a significant change in the ratio of net interest and non-interest income in the near future.

The Bank expects some improvement in macroeconomic conditions and economic growth in 2021-2022, which will increase non-interest income (commissions from cash and settlement services, the result of currency trading), reduce the cost of provisions for asset-side operations, etc.

Key performance indicators

The key performance indicators (performance indicators used by the management to assess the Bank performance in accordance with the set objectives, analysis of significant changes in financial condition, liquidity and performance compared to targets, their changes during the reporting period)

Performance indicators	2019	2020	Changes
Liquidity ratio, %	23.8%	25.9%	2.0%
Capital adequacy ratio, %	19.5%	21.4%	1.9%
Tier I capital adequacy ratio, %	12.0%	14.3%	2.3%
Loan portfolio coverage ratio with customers funds, %	144.8%	237.8%	93.0%
Net interest margin, %	1.2%	0.9%	-0.4%
Return on assets, %	0.04%	-3.4%	-3.4%
Return on equity, %	0.8%	-58.1%	-58.9%
Operating expenses, % of net operating income	77.5%	96.5%	19.0%

The Bank has a stable structure of operating income, which reflects the structure and features of its operations.

Information on entering into derivatives or derivative securities deeds by the issuer

During the reporting period, the Bank did not enter into any derivatives and did not enter into any derivative securities deeds.

Information on the issuer's objectives and policies on financial risk management, including insurance policies for each major type of forecast transaction for which hedging transactions are used

For efficient risk management, the Bank has developed and implemented a risk management system that provides for the distribution of rights, obligations, responsibilities between management bodies, structural units of the Bank, separation of risk identification and assessment processes. More detailed information on financial risk management is provided in Section 13. Information on the Bank's risk management system and its key characteristics.

Information on the issuer's exposure to price risks, credit risk, liquidity risk and/or cash flow risk

Significant types of risks and the Bank approaches to the risk management are provided in Section 13. Information on the Bank risk management system and its key characteristics.

Corporate Governance Report

1. Purpose of implementing the Bank's activity

The purpose of the Bank's activity is to create favourable conditions for economic development and domestic producers support, servicing of export-import transactions, credit and financial support of economic restructuring processes, strengthening and implementation of production and trade potential of industries and enterprises which are export-oriented or carry out activity related to production of import-substituting products, as well as making a profit in the interests of the Bank and its shareholder by:

- attracting external and internal credit resources and investments;
- obtaining and granting loans on behalf of and under instruction of the Cabinet of Ministers of Ukraine or another body authorized by the state in accordance with the legislation, servicing the relevant share of Ukraine's state external debt on loans raised by the state or secured by state guarantees, within the Bank's agency functions;
- financing and guaranteeing export-import transactions of enterprises;
- providing credit and financial support to foreign economic entities in order to promote domestic goods in foreign markets;
- implementing a set of measures for financing of investment projects, in particular at the expense of budget and loan funds, business entities funds, foreign investments and loans, support of investment projects and control over the rational use of borrowed resources;

- provision of banking services, carrying out of transactions in the monetary, currency and stock markets, in particular in the field of foreign economic activity;
- cooperation with international financial organizations, governmental, non-governmental organizations and credit and financial institutions of foreign countries on attracting financial resources to the economy of Ukraine;
- carrying out other activities and carrying out other transactions in accordance with the legislation, licenses, permits issued by the National Bank or other authorized bodies, and the provisions of the Charter.

2. Information on compliance / non-compliance with the principles or code of corporate governance (with reference to the source of their text), deviations and reasons for such deviations during the year.

In 2020, the Supervisory Board developed and approved Code (Principles) of Corporate Governance and Code of Conduct (Ethics) of the Bank.

During 2020, prior to the approval of Code (Principles) of Corporate Governance and Code of Conduct (Ethics) of the Bank, the Supervisory Board and the Management Board were guided by the provisions of the Law of Ukraine On Banks and Banking (hereinafter - the Law on Banks), other regulations, the Charter, Regulation on the Supervisory Board and Regulation on the Management Board.

In cases not regulated by the legislation, the Charter, Regulation on the Supervisory Board, Regulation on the Management Board, Code (Principles) of Corporate Governance and Code of Conduct (Ethics), the Bank directs its activities in accordance with the following guidelines and recommendations:

- Methodical recommendations on organization of corporate governance in banks of Ukraine, approved by Resolution of the Board of the National Bank of Ukraine dated 03.12.2018 № 814 (hereinafter - Methodical Recommendations of the NBU);
- Principles of corporate governance, approved by Resolution of the National Securities and Stock Market Commission dated 22.07.2014 № 955;
- the document of the Basel Committee on Banking Supervision “Principles of Corporate Governance in Banks” dated July 2015.

3. Information on holders of substantial share (including persons exercising control over the financial institution), their compliance with the requirements of the legislation and the change in their composition for the year

As of December 31, 2020, 100% of the authorized capital of the Bank belongs to the state represented by the Cabinet of Ministers of Ukraine. Address: 01008, Kyiv, 12/2 Hrushevskoho St.

4. Information on held general meetings of shareholders of the Bank and a general description of the decisions taken at the meetings

According to Article 7 of the Law of Ukraine On Banks, the sole shareholder of the state-owned bank is the state. The functions on management of corporate rights of the state in the state-owned bank are performed by the Cabinet of Ministers of Ukraine. The body that manages the corporate rights of the state in the state-owned bank also performs the functions of the supreme governance body of the state bank.

Decisions of the supreme body are formalized by acts of the Cabinet of Ministers of Ukraine, drafts of which are prepared and submitted to the Cabinet of Ministers of Ukraine by the central executive body that ensures the formation of the financial policy, and are not subject to approval by other interested bodies.

5. Procedure for appointment and dismissal of Bank officials.

the Supervisory Board of the Bank

The Supervisory Board is a deliberative governance body of the Bank, which within its competence manages the Bank, controls and regulates the activities of the Bank's Management Board in order to implement the Bank's development strategy, as well as protects the rights of depositors, creditors and the state as a shareholder of the Bank.

Members of the Supervisory Board are appointed by the Cabinet of Ministers of Ukraine as the supreme governance body of the Bank in the manner prescribed by legislation, in particular:

- one representative of the state in the Supervisory Board is appointed by the Cabinet of Ministers of Ukraine as the supreme governance body on the proposal of the President of Ukraine, one - on the proposal of the Cabinet of Ministers of Ukraine and one - on the proposal of the Verkhovna Rada Committee on Finance, Tax and Customs Policy.
- independent members of the Supervisory Board are appointed by the Cabinet of Ministers of Ukraine as the supreme governance body of the Bank on the basis of a proposal of the tender commission established by the Cabinet of Ministers of Ukraine.

Given the special role of the state bank's supervisory board in the new corporate governance system, the Law established a special procedure for determining and appointing members of the state-owned bank's supervisory board.

In order to ensure the independence of the supervisory boards of state-owned banks, the Law limited the right of the supreme body to terminate the powers of supervisory board members of its own volition to two cases, namely: repeated disapproval by the supreme body of the state bank's development strategy approved by the supervisory board of the state-owned bank and nonfulfillment of the strategy and/or business development plan of the state-owned bank, which is confirmed by the results of the annual evaluation in the manner prescribed by the supreme body.

All other grounds for termination of powers of members of supervisory boards by supreme body are based on legal facts that arose not on the initiative of the supreme body, including the fact of non-compliance of a member of the supervisory board of a state-owned bank with the requirements for members of the supervisory board; at the request of at least five members of the supervisory board of the state-owned bank or the National Bank of Ukraine if a member of the supervisory board of a state-owned bank improperly performs his / her official duties or does not meet the requirements for professional suitability and business reputation.

The Management Board of the Bank

The permanent executive body of the Bank is the Management Board that carries out management of the Bank activities on an on-going basis, should act in favour of the Bank and avoid conflicts of interest and is responsible for the effectiveness of its performance in accordance with the Bank's Charter and Regulation on the Management Board.

The Management Board consists of the Chairman of the Management Board, Deputy Chairmen of the Management Board and other members of the Management Board. The number of members of the Management Board is not less than eight.

Chairman of the Management Board and other members of the Management Board are appointed and dismissed by the Supervisory Board on the proposal of the Supervisory Board Appointment and Remuneration Committee.

Candidates for the positions of the Chairman and other members of the Management Board are determined on the terms of competitive selection, including from the Bank's employees, in accordance with the procedure established by the Supervisory Board.

The National Bank shall approve the positions of the Chairman and other members of the Management Board in accordance with the procedure established by it.

The Chairman of the Management Board shall take office after the approval by the National Bank.

The grounds for termination of powers of the Chairman and other members of the Management Board, including early termination, shall be established by legislation.

Chief accountant

In accordance with the Bank's Charter, the Chairman of the Management Board appoints and dismisses employees in accordance with the nomenclature of positions.

Head of Internal Audit Department

In accordance with the Bank's Charter, he/she is appointed and dismissed by the Supervisory Board. The candidacy shall be approved by the National Bank of Ukraine. Requirements for professional suitability and business reputation are set by the National Bank. Holding positions in other banks is forbidden.

6. Powers of the Bank's officials.

The powers of the Bank's officials are set out in the Bank's Charter, Regulations on the Supervisory Board and the Management Board of the Bank, which are available free of charge on the Bank's official website at the link – <https://www.eximb.com/ua/bank/corp-management.html>.

In addition, the order on personal distribution of functions among the Bank's management is valid in the Bank.

7. Information on composition of the Bank's Supervisory Board and its change during the year, including the committees established by it, as well as information on the meetings held with a general description of the decisions taken

As of the end of 2020, the Supervisory Board of the Bank consisted of 7 (seven) members, five of whom were independent members of the Supervisory Board and two were representatives of the state.

Personnel composition of the Supervisory Boars as of the end of 2020:

- Ms Olyana Gordiyenko, independent member of the Supervisory Board;
- Mr. Dimitri Chichlo, independent member of the Supervisory Board;
- Mr. Sergiy Konovets, independent member of the Supervisory Board;
- Mr. Dominique Menu, independent member of the Supervisory Board;
- Mr. Laszlo Urban, independent member of the Supervisory Board;
- Ms Viktiriya Strakhova, member of the Supervisory Board, representative of the state on behalf of the President of Ukraine;
- Mr. Yuriy Butsa, member of the Supervisory Board, representative of the state on behalf of the Cabinet of Ministers of Ukraine.

Ms Olyana Gordiyenko is the Chairperson of the Supervisory Board. Mr. Dimitri Chichlo is Deputy Chairperson of the Supervisory Board.

In 2020, the following changes took place in composition of the Supervisory Board:

- in accordance with the Order of the Cabinet of Ministers of Ukraine dated 08.04.2020 № 387-p, powers of Mr. Dmytro Kaplyuk, member of Supervisory Board of the Bank, were terminated.;
- in accordance with the Order of the Cabinet of Ministers of Ukraine dated 16.12.2020 № 1580-p, Mr. Yuriy Terentiev was appointed as member of the Supervisory Board, representative of the state on behalf of the Verkhovna Rada Committee on Finance, Tax and Customs Policy. Mr. Terentiev took office (acquired powers) of member of the Supervisory Board on March 4, 2021, after obtaining the approval of the National Bank of Ukraine.

In order to ensure planned and adequate load on members of the Supervisory Board and full formation of quantitative composition the Supervisory Board in 2020 required appointment of two more members. On December 16, 2020, at the proposal of the Verkhovna Rada Committee on Finance, Tax and Customs Policy, the supreme body appointed a new member to the Supervisory Board - a representative of the state, who took office (acquired powers) as member of the Supervisory Board on March 4, 2021 (after obtaining approval by National Bank of Ukraine). In addition, the Supervisory Board expects filling the vacancy by another independent member. At the same time, the current composition of the Supervisory Board is sufficient for making decisions by the Supervisory Board and ensures the effective performance by the Supervisory Board of its governance functions.

Regular meetings of the Supervisory Board are held if necessary, but at least once a quarter (during 2020, at least one meeting of the Supervisory Board and several meetings of the Supervisory Board committees were held each month). When convening and holding meetings in 2020, the plan of meetings of the Supervisory Board was taken into account, which was approved by the Supervisory Board on December 6, 2019.

In 2020 the members of the Supervisory Board held 48 meetings, received and analysed more than 2,000 documents in order to prepare for these meetings, maintained constant communication with the newly elected Management Board and relevant structural units of the Bank to form a better vision of problems and challenges that stand in the way of achieving the goals set by the Bank.

During 2020, the Supervisory Board, among other things, adopted decisions on the following strategic issues of the Bank's activity and development:

- Competitive selection was conducted and composition of the Management Board and heads of the Bank's control units was updated (internal audit unit, compliance control unit and risk management unit)
- Development strategy of the Bank developed in accordance with the main (strategic) activities identified by the Cabinet of Ministers of Ukraine as the supreme governance body of the Bank was approved, and affirmed by it on December 9, 2020.
- The Bank's problem assets management strategy and the operational plan for implementation of the Bank's problem assets management strategy were approved;
- Changes to organizational structure of the Bank were approved in order to ensure its compliance with the Bank's risk profile, economic feasibility and proper management of all significant types of risks and reporting on them;
- The reports of the Management Board on the need for additional capitalization of the Bank were heard, the source of additional capitalization was determined and the issue on increasing the authorized capital of the Bank was submitted to the supreme body of the Bank in order to insure compliance with economic ratios of the National Bank of Ukraine and book additional provisions for the historical portfolio of non-performing loans;
- Development process was initiated and Code of Conduct (Ethics), the Code (Principles) of Corporate Governance and Regulation on Ethics Commission were developed;
- Internal documents on risk management and compliance control in the Bank and internal regulations governing the activities of the Bank's structural units were approved;
- Appropriate measures have been taken to minimize operational and other risks related to limitation of payment of remuneration to the Bank's executives in accordance with the CMU Order No. 478-p "Certain issues of payment of salaries and remuneration to executives of Joint-Stock Company "The State Export-Import Bank of Ukraine" and the Law of Ukraine "On Amendments to the Law of Ukraine "On the State Budget of Ukraine for 2020";
- Appraisers of the Bank's property were selected and conditions of relevant agreements with them were approved; market value of the banks property was approved;
- Consent for purchase of Eurobonds issued under LPN scheme on international capital markets was provided;
- Consent for financial restructuring of some of the Bank's debtors was provided and terms and conditions of such restructuring were approved;
- The Bank's business development plan for 2021-2023 was approved, which includes the Bank's budget for 2021, including the budgets of the Bank's Supervisory Board, internal audit unit, compliance control unit and risk management unit.
- The Bank's internal audit plan for 2020 was approved and reports on activities of the Bank's internal audit unit / results of audits were considered.
- Regulation on Remuneration to Members of the Management Board of the Bank was approved / Regulation on Remuneration to Members of the Supervisory Board of the Bank was submitted for consideration and approval by the supreme body of the Bank.
- The internal procedure for assessing the effectiveness of the Supervisory Board, its collective suitability and assessment of corporate governance and the internal procedure for assessing the effectiveness of the Bank's Management Board and control units, the collective suitability of the Bank's Management Board were approved;
- Templates of the profile matrix of the Supervisory Board and the Management Board of the Bank to determine the collective suitability of the Supervisory Board and the Management Board of the Bank were approved;
- Assessment of compliance of members of the Supervisory Board and the management with qualification requirements, including those on business reputation and professional suitability was carried out;
- An annual assessment of the effectiveness of the Supervisory Board, its collective suitability and corporate governance and assessment of the effectiveness of the Management Board and control units of the Bank, the collective suitability of the Management Board of the Bank were initiated; the collective suitability of the Supervisory Board was determined;
- The terms and conditions of the agreement on voluntary liability insurance of heads and senior officials of the Bank were approved.

- The Supervisory Board has established all committees required to be established in accordance with Part 32 of Article 7 of the Law on Banks, namely: Audit Committee, Risk Committee and Appointment and Remuneration Committee.

Pursuant to Law on Banks heads of Risk Committee and Appointment and Remuneration Committee are independent members of the Supervisory Board, in particular, Head of Risk Committee is Mr. Dominique Menu, and Head of Appointment and Remuneration Committee is Ms. Olyana Gordiyenko. Pursuant to requirements of the Law on Banks, most members of each of committees of the Supervisory Board, namely Risk Committee and Appointment and Remuneration Committee are independent (starting from April 3, 2020, all members of Risk Committee are independent). All members of Audit Committee are independent, Head of Audit Committee is Mr. Sergii Konovets.

In addition, in order to ensure the effective operation of the Bank's Supervisory Board, Operating Activity and Digitalization Committee, Governance and Compliance Committee and NPL Workout Committee were additionally established and successfully perform their functions.

The Committees provide assistance to the Supervisory Board in the exercise of its powers through preliminary study and preparation for consideration at the meeting of issues within the competence of the Supervisory Board. The functions of the committees of the Supervisory Board are defined in accordance with the legislation in regulations on committees of the Supervisory Board, which are approved by the Supervisory Board.

Supervisory Board established 6 (six) committees that carry out the preliminary study of the issues delegated to them within the competence of the Supervisory Board and their preparation for consideration by the Supervisory Board at the meeting, in particular:

- Audit Committee;
- Risk Committee;
- Appointment and Remuneration Committee;
- Operating Activity and Digitalization Committee;
- Governance and Compliance Committee;
- NPL Workout Committee.
-

Audit Committee

Purpose of activity

Assisting the Supervisory Board in exercising its powers to ensure the functioning and control over the effectiveness of the internal control system and the internal audit function in the Bank, compliance with internal audit policies and external audit.

Composition of the Committee

Head of the Committee – Mr Sergiy Konovets

Mr Dominique Menu, Mr Dimitri Chichlo

Number of meetings held - in 2020 the committee held 25 meetings according to meetings attendance records.

Key activities of the Committee:

- provision of a recommendation to the Supervisory Board to make amendments to the organizational structure of the Bank regarding liquidation of the internal audit division at the Bank and establishment on its basis of the Internal Audit Department at the Bank, approval of the structure of the Internal Audit Department, the Regulation on the Internal Audit Department and the job description of the Head of the Internal Audit Department;
- provision of proposals to the Nomination and Remuneration Committee of the Supervisory Board regarding the determination of Ivan Ivanovych Shykera as the winner of the competitive selection of the Head of the Internal Audit Department of the Bank, as well as the amount of his remuneration;
- provision of recommendations to the Supervisory Board to approve the Regulation on interaction of Internal Audit Department with structural units of the Head Office of the Bank / branches / subsidiaries / representative offices

during the audits; the Procedure of quality assurance and improvement program for the internal audit of the banking group of the Bank; templates of the annual and quarterly reports of the Internal Audit Department to be submitted to the Audit Committee/Supervisory Board;

- provision of recommendations to the Supervisory Board to approve the action plan for implementation of the recommendations of Deloitte & Touche LLC on assessment of the quality of internal audit function;
- consideration of the reports of the internal audit unit on results of completed audit engagements and periodic reports on the results of the internal audit activity;
- provision of recommendations to the Supervisory Board to approve the audit plan of the internal audit unit of the Bank for 2020; the Audit Universe; the Methodology of annual risk-based audit planning in the banking group; Criteria for assessing effectiveness of the internal control system of the Bank; Methodology for assessing effectiveness, comprehensiveness and adequacy of the internal control system of the Bank;
- provision of recommendations to the Supervisory Board to approve draft budgets of the internal audit unit to evaluate if the allocated resources are adequate for internal audit effectiveness; provision of recommendations to the Supervisory Board to approve the budget of the Supervisory Board;
- assessment of the effectiveness of the internal audit unit of the Bank;
- assessment of the effectiveness and independence of the Bank's external auditor.

Risk Committee

Purpose of activity

Assisting the Supervisory Board in exercising its powers on control over adequacy and effective functioning of the Bank's risk management system.

Composition of the Committee

Head of the Committee – Mr Dominique Menu

Members of the Committee – Mr Dimitri Chichlo, Ms Olyana Gordiyenko and Mr Laszlo Urban, also Mr Dmytro Kaplyuk was included to the Committee (membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board by order of the Cabinet of Ministers of Ukraine dated April 8, 2020 № 387-p) and Ms Victoria Strakhova (membership in the Committee was terminated by Resolution of the Supervisory Board dated April 3, 2020 (Minutes No.16 of the meeting of the Supervisory Board))

Number of meetings held - in 2020 the committee held 52 meetings according to meetings attendance records.

Key activities of the Committee:

- discussion and consideration of the Bank's internal reporting on capital ratios, liquidity risk assessment, bank book interest rate risk, market risks, operational risks, as well as the results of internal stress testing;
- development and submission to the Supervisory Board of recommendations on approval of internal documents on risk management and compliance control in the Bank;
- initiating approval of changes to the Bank's organizational structure regarding the establishment of Compliance Control Department and Risk Management Department at the Bank's Head Office with their subordination to the Supervisory Board and providing recommendations to the Supervisory Board on approval of organizational structure of these departments;
- provision of recommendations to the Supervisory Board on selection of appraisers of the Bank's property and approval of the terms and conditions of the relevant agreements with them, as well as on the approval of the market value of the Bank's property;
- consideration of the expediency and provision of recommendations to the Supervisory Board on purchase of Eurobonds issued under LPN scheme on international capital markets;
- provision of recommendations to the Supervisory Board on certain asset-side transactions of the Bank, in particular financial restructuring of some debtors of the Bank;

- provision of recommendations to the Supervisory Board on approval of conclusion of a General Agreement on interest rate swap operations with the National Bank of Ukraine and carrying out of interest rate swap operations with the National Bank of Ukraine within the framework of this agreement;
- consideration of the need to apply to the supreme body of the Bank with a request to provide the Bank with additional capital to ensure compliance with ratios of the National Bank of Ukraine, development of its loan portfolio and implementation of its development strategy;
- consideration of the issue on occurrence of operational and other risks in connection with the limitation of remuneration to the Bank's executives and providing recommendations to the Supervisory Board on taking appropriate measures to minimize these risks;
- cooperation with Appointment and Remuneration Committee of the Supervisory Board in conducting competitive selections and determining the amount of remuneration to Management Board member on risk management and head of Compliance Control Department of the Bank;
- providing recommendations to the Supervisory Board on appointment of an employee responsible for conducting financial monitoring in the Bank;
- making proposals to the Supervisory Board on taking measures to prevent conflicts of interest in the Bank and facilitate their settlement;
- review of the Bank's exposure to significant risks, including, but not limited to, credit risk, market risk, operational risk, bank book interest rate risk, liquidity risk, compliance risk, etc.;
- development, in cooperation with Governance and Compliance Committee of the Supervisory Board, of the Bank's Code of Conduct (Ethics);
- consideration of the draft budget of Risk Management Department and Compliance Control Department for the next year for the availability of sufficient financial support for these units and to ensure that the remuneration of employees of these units does not depend on the performance of business units.

Appointment and Remuneration Committee

Purpose of activity

Assisting the Supervisory Board in exercising its powers on control over the efficiency of appointments and remuneration management in the Bank.

Composition of the Committee:

Head of the Committee – Ms Olyana Gordiyenko

Members of the Committee – Ms Viktoriya Strakhova, Mr Sergiy Konovets, Mr Dimitri Chichlo (appointed a member of the Committee on the basis of Resolution of the Supervisory Board dated January 16, 2020 (minutes of the meeting of the Supervisory Board № 2)), also the composition of the Committee included Mr. Laszlo Urban (whose membership in the Committee was terminated upon his application on the basis of Resolution of the Supervisory Board dated January 16, 2020 (Minutes of the Supervisory Board meeting № 2)) and Mr Dmytro Kaplyuk (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board on the basis of order of the Cabinet of Ministers of Ukraine dated April 8, 2020 № 387-p).

Number of meetings held - in 2020 the committee held 46 meetings according to meetings attendance records.

Key activities of the Committee:

- conducting competitive selections of candidates / appointments to the positions of the Chairman and members of the Management Board of the Bank;
- conducting competitive selection of candidates / appointments to the positions of heads of risk management unit, compliance control unit, internal audit unit of the Bank;
- submitting proposals to the Supervisory Board on termination of powers of certain members of the previous composition of the Management Board of the Bank;
- initiating making of changes to the organizational structure of the Bank regarding the establishment of a permanent risk management unit subordinated to the Supervisory Board of the Bank and the establishment of NPL workout department of the Bank;

- provision of recommendations to the Supervisory Board on taking appropriate measures to minimize operational and other risks related to limitation of remuneration payment to the Bank's executives in accordance with the CMU Order № 478-p “Certain issues of remuneration payment to executives of Joint-Stock Company “The State Export-Import Bank Ukraine” and the Law of Ukraine “On Amendments to the Law of Ukraine “On the State Budget of Ukraine for 2020”;
- ensuring the annual assessment of the effectiveness of the Supervisory Board and its committees, including the development and provision of recommendations to the Supervisory Board on approval of documents for assessment of the effectiveness and level of corporate governance of the Bank's Supervisory Board and its collective suitability;
- development and provision to the Supervisory Board of recommendations on approval of documents for assessment of the effectiveness of the Management Board and control units, collective suitability of the Management Board of the Bank;
- provision of recommendations to the Supervisory Board on approval of Regulation on Remuneration to Members of the Management Board of the Bank / submission for consideration and approval by the supreme body of the Bank of Regulation on Remuneration to Members of the Supervisory Board;
- ensuring the development and approval by the Supervisory Board of the profile matrix of the Supervisory Board and the Management Board of the Bank.

Operating Activity and Digitalization Committee

Purpose of activities

Assisting the Supervisory Board in monitoring the efficiency of business processes, operations, information technologies and information security of the Bank in order to implement the Bank's strategy.

Composition of the Committee:

Head of the Committee – Mr Dimitri Chichlo

Members of the Committee – Mr Sergiy Konovets, Mr Dominique Menu, Mr Yuriy Butsa, Ms Viktoriya Strakhova, Mr Dmytro Kaplyuk (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board on the basis of order of the Cabinet of Ministers of Ukraine dated April 8, 2020 № 387-p).

Number of meetings held - in 2020 the committee held 13 meetings according to meetings attendance records.

Key activities of the Committee:

- monitoring the availability of resources in the Bank to constantly analyse, propose and implement organizational and technical solutions in order to improve the efficiency of internal business processes and reduce their operational risk;
- monitoring the effectiveness of the Bank's implementation of organizational and technical solutions in order to improve the efficiency and reduce the operational risk of internal business processes, in particular, providing recommendations on finalization of the migration from the Grant system to the centralized automated B2 Core Banking;
- analysis of the Bank's structure and the Bank's regional network (branches) and submission of a proposal to the Supervisory Board on its optimization;
- work in cooperation with the Management Board of the Bank on development of a new organizational structure of the Bank and its implementation;
- work on information security and information technologies strategy;
- consideration of the issue of occurrence of operational and other risks in connection with the limitation of remuneration payment to the Bank's executives and providing recommendations to the Supervisory Board on taking appropriate measures to minimize these risks.

Governance and Compliance Committee

Purpose of activities

Assisting the Supervisory Board in exercising its powers on efficient organization of corporate governance in the Bank.

Composition of the Committee

Head of the Committee – Mr Yuriy Butsa

Members of the Committee – Ms Olyana Gordiyenko, Mr Dominique Menu, Mr Laszlo Urban and Ms Viktoriya Strakhova.

Number of meetings held - in 2020 the committee held 10 meetings according to meetings attendance records.

Key activities of the Committee:

- development and submission for consideration and approval by the Supervisory Board of Principles (Code) of Corporate Governance of the Bank, Code of Conduct (Ethics) of the Bank, as well as Regulation on Ethics Commission of the Bank;
- monitoring the Bank's compliance with the principles of corporate governance and the functioning of the Bank's corporate governance system;
- ensuring an annual review of the provisions (policies) of the Bank regarding corporate governance bodies;
- providing recommendations to the Supervisory Board on organization of legal support for its activities;
- monitoring of tendencies, initiatives or proposals on changes in the legal area, best practices on corporate governance in order to determine the degree of impact of these initiatives on the Bank.

NPL Workout Committee

Purpose of activities

Assisting the Supervisory Board in exercising its powers on establishment and ensuring the functioning in the Bank of efficient problem assets management process.

Composition of the Committee

Head of the Committee – Mr Laszlo Urban

Members of the Committee – Ms Olyana Gordiyenko, Ms Viktoriya Strakhova, Mr Dominique Menu, Mr Dmytro Kaplyuk (whose membership in the Committee was terminated due to termination of his powers as a member of the Supervisory Board on the basis of order of the Cabinet of Ministers of Ukraine dated April 8, 2020 № 387-p).

Number of meetings held - in 2020 the committee held 13 meetings according to meetings attendance records.

Key activities of the Committee:

- participation in development of the Bank's problem assets management strategy and operational plan, as well as other documents on problem assets management issues;
- monitoring the results of implementation of the Bank's problem assets management strategy and operational plan;
- ensuring the preparation and submission to the Supervisory Board of the Bank of draft decisions on determining the instruments for settlement of exposure on non-performing assets and the conditions (parameters) of such settlement;
- submission to the Supervisory Board of the Bank of proposals on settlement of exposure of debtors / counterparties of the Bank, which according to the legislation requires resolution of the Supervisory Board of the Bank;
- monitoring of tendencies, initiatives or proposals on changes in the legal sphere regarding problem assets management in order to determine the degree of impact of these initiatives on the Bank and provision of updated information to the Bank's Supervisory Board.

8. Information on composition of the executive body of the Bank and its change during the year, including the committees established by it, as well as information on meetings held with a general description of the decisions taken

The Chairman and other members of the Management Board shall meet the requirements of the Law On Banks and regulations of the National Bank regarding professional suitability and business reputation.

The Management Board carries out management of current activities of the Bank, formation of funds and is responsible for efficiency of its work in accordance with the Charter and regulations on the Management Board of the Bank.

The Management Board acts on behalf of the Bank in accordance with the competence provided by legislation and the Charter, on the basis of regulation approved by the Supervisory Board. The Management Board is accountable to and supervised by the Supervisory Board.

The Management Board is headed by the Chairman of the Management Board who manages the work and has the right to represent the Bank without a power of attorney.

During performance of their duties, the members of the Management Board shall act in the interests and for the benefit of the Bank, the Bank's clients, comply with the legislation, provisions of the Charter and other documents of the Bank and shall put the Bank's interests above their own.

The composition of the Management Board as of the end of 2020 was the following:

- Mr. Ievhen Metsger, Chairman of the Management Board;
- Mr. Dmytro Kaplyuk, Member of the Management Board on risk management, Head of Risk Management Department;
- Mr. Oleksandr Ignatenko, Member of the Management Board;
- Mr. Sergii Iermakov, Member of the Management Board;
- Mr. Oleksandr Shchur, Member of the Management Board;
- Mr. Oleksandr Muravitski, Member of the Management Board;
- Ms Svitlana Monastyrskya, Member of the Management Board, Deputy Chairman of the Management Board.

During 2020 the following changes took place in composition of the Management Board:

- Mr. Oleksandr Hrytsenko, Chairman of the Management Board, was dismissed (Resolution of the Supervisory Board dated 06.02.2020 № 4);
- Mr. Sergiy Myskiv, Member of the Management Board – Deputy Chairman of the Management Board was dismissed (Resolution of the Supervisory Board dated 02.03.2020 № 9);
- Mr. Volodymyr Kotov, Member of the Management Board – Deputy Chairman of the Management Board was dismissed (Resolution of the Supervisory Board dated 02.03.2020 № 9);
- Mr. Oleksandr Sokolov, Member of the Management Board, was dismissed (Resolution of the Supervisory Board dated 02.03.2020 № 9);
- Ms Victoriia Ruda, Member of the Management Board was dismissed (Resolution of the Supervisory Board dated 26.03.2020 № 15);
- Ms Olga Aliksieieva, Member of the Management Board was dismissed (Resolution of the Supervisory Board dated 26.03.2020 № 15);
- Mr. Oleh Belinskiy, Deputy Chairman of the Management Board, Member of the Management Board was dismissed (Resolution of the Supervisory Board dated 07.05.2020 № 21);
- Mr. Vadym Polishchuk, Member of the Management Board, was dismissed (Resolution of the Supervisory Board dated 07.12.2020 № 45);
- Mr. Ievhen Metsger was appointed to position of the Chairman of the Management Board (Resolution of the Supervisory Board dated 06.02.2020 № 4);
- Mr Vadym Polishchuk was appointed to position of member of the Management Board of the Bank (Resolution of the Supervisory Board dated 02.03.2020 № 9);
- Mr. Oleksandr Ignatenko was appointed to position of member of the Management Board of the Bank (Resolution of the Supervisory Board dated 26.03.2020 № 15);
- Mr. Sergii Iermakov was appointed to position of member of the Management Board of the Bank (Resolution of the Supervisory Board dated 26.03.2020 № 15);
- Mr. Dmytro Kaplyuk was appointed to position of member of the Management Board of the Bank on risk management (Resolution of the Supervisory Board dated 26.03.2020 № 15);
- Mr. Oleksandr Muravitski was appointed to position of member of the Management Board of the Bank (Resolution of the Supervisory Board dated 16.04.2020 № 17).

In 2020 the Management Board held 102 meetings, 11 of them are in the regular course of work, where 606 issues were considered. In making decisions the Management Board was guided by the Charter, regulation on the Management Board and other regulatory and administrative documents of the Bank.

In accordance with the requirements of the regulation on the Management Board, the meetings of the Management Board are held if necessary, but at least once a month. If necessary, by the decision of the Chairman of the Management Board, extraordinary meetings are held.

A meeting of the Management Board may be held using means of electronic communication (video and voice conferences, etc.) provided that each member of the Management Board participating in such a conference can see and hear (or at least hear) and communicate with all other participants during the Management Board meeting. This form of holding a meeting is allowed if none of the members of the Management Board has objected to its use before the relevant meeting of the Management Board.

The Management Board has the right to make decisions if at least two thirds of its members from the actually appointed composition of the Management Board are present at the meeting.

Decisions of the Management Board are taken by a simple majority of votes of its members participating in the meeting. In case of equal votes, the vote of the Chairman at the meeting of the Management Board is decisive. Meetings of the Management Board of the Bank were chaired by the Chairman of the Management Board. In his absence, the meeting was chaired by a member of the Management Board, who acted as the Chairman of the Management Board.

Head of the Risk Management Unit (CRO) and the Head of the Compliance Control Unit (CCO) were present at the Management Board meetings and had the right to impose a ban (veto) on the Management Board decisions in cases stipulated by the applicable legislation of Ukraine and Bank regulations. There were no cases of veto.

At the meetings of the Management Board the issues of current management of the Bank's activity were discussed, namely:

- reporting on the results of the Bank's activities;
- reporting on the results of regional network activities;
- carrying out transactions with retail and corporate clients, including: approval of decisions of the Credit Committee and Problem Asset Workout Committee;
- cooperation with international financial organizations;
- preparation and submission of issues for consideration by the Supervisory Board, including: consideration of the annual financial statements / consolidated annual financial statements together with opinions of the external audit, business development plan of the Bank;
- affirmation or approval of regulations within the competence;
- giving consent to the appointment, dismissal, transfer of heads of structural units of the Head Office, branches;
- risk management reporting, including: approval of thresholds of key risk indicators, issues on the results of stress testing of risk sensitivity, consideration of management reporting on credit risks, prepared on a quarterly basis;
- approval of the list of bank related parties;
- making decisions on charitable support, etc.

In accordance with the Charter, 9 committees were established by the Management Board of the Bank and operated in 2020, in particular:

- Credit Committee;
- Retail Business Committee;
- Assets and Liabilities Committee;
- Tariff Committee;
- Information Security Committee;
- Problem Assets Workout Committee;

- IT Committee;
- Operation and Compliance Risk Committee;
- Tender committee.

Credit Committee

is a permanent deliberative body, which determines the possibility and conditions of conducting asset-side banking operations with business entities, asset-side operations in the interbank market, asset-side operations with securities within the powers delegated to it by the Management Board, and establishes key risk indicators, approves the classification of asset-side operations of the Bank and receivables, as well as proposals for loan loss provisioning, is responsible for the implementation of the Bank Lending Policy.

Composition of the Credit Committee as of December 31, 2020

Position	Full name
Head of Committee	Ignatenko O.S.
Deputy Head of Committee	Isnyuk O.S.
Member of Committee	Kaplyuk D.Ie.
Member of Committee	Nikolaev V.A.
Member of Committee	Lazovskyi O.V.
Member of Committee	Rychenko V.S.
Regularly invited	Bakumenko D.Yu., Head of Compliance Control Department CCO)

In 2020, 149 meetings of the Credit Committee were held, at which 874 issues were considered and decisions were made, in particular on the following:

- lending to borrowers / making changes to lending to borrowers / extending the validity period of decisions of the Credit Committee on lending to borrowers;
- setting of limits on asset-side operations with counterparty banks;
- approval of the amount of provisions under IFRS9 and the amount of credit risk on asset-side banking operations at the reporting date;
- lending to the Bank related parties;
- approval of financial restructuring plans, etc.

Retail Business Committee

Is permanent deliberative body, which determines the possibility and conditions of credit operations with individual borrowers / borrowers of the small business segment on the terms of standard credit products defined in the Procedure for lending to business entities of the small business segment, and business entities to implement the SMB lending Facilitation Program, is responsible for the implementation of the Bank policy on lending to individual borrowers / SMB borrowers, determines the possibility and conditions of settlement and funding operations of retail business, as well as assesses the quality of the loan portfolio with individual borrowers / SMB borrowers, and other functions specified in the Retail Business Committee Regulation

Composition of the Retail Business as of December 31, 2020

Position	Full name
Head of Committee	Medko M.B.
Deputy Head of Committee	Puskai S.S.
Member of Committee	Blyznyuk A.S.
Member of Committee	Grynenko I.V.
Member of Committee	Agre N.L.
Member of Committee	Nikolaev V.A.
Member of Committee	Skrynskyi S.V.

In 2020, 86 meetings of the Retail Business Committee were held, at which 477 issues were considered and decisions were made, in particular on the following:

- lending to borrowers / making changes to lending to borrowers/ extending the validity period of the RBC decisions on lending to borrowers;
- opening a credit line within the framework of the “Bonus” card credit product;
- approval / change of lending terms / passports of credit products / procedures / agreements;
- early termination of loan agreements with borrowers;
- changes in restrictions for making payments by means of Enter EXIM systems, etc.

Assets and Liabilities Committee

is a permanent deliberative body of the Bank, which, according to the procedure specified in the Assets and Liabilities Committee Regulation, ensures the management of the structure of assets and liabilities, compliance with liquidity risk, interest rate risk of the banking book, market risks, including established by the NBU economic standards for liquidity risk, capital, and open currency position limits, as well as the relevant financial covenants under foreign trade agreements.

Composition of the Assets and Liabilities Committee as of December 31, 2020

Position	Full name
Head of Committee	Iermakov S.O.
Member of Committee	Metsger Ie.V.
Member of Committee	Ignatenko O.S.
Member of Committee	Kaplyuk D.Ie.
Member of Committee	Schur O.V.
Member of Committee	Medko M.B.
Member of Committee	Boldyrev A.V.
Member of Committee	Sokyrko S.S.

In 2020, 68 meetings of the Assets and Liabilities Committee were held, at which 288 issues were considered and decisions were made, in particular on the following:

- revision of interest rates on customer deposits;
- approval of individual conditions for attracting customers' funds;
- revision of recommended interest rates on loans;
- setting of transfer rates;
- participation in the auction for placement of domestic government bonds;
- use of currency position to repay loan debt;
- sources of loan financing;
- setting of limits on the interest rate risk of the banking book and warning limits to them;
- information reports on the review of financial markets, on the dynamics of % rates and liquidity position, on capital ratios, liquidity risk assessment, interest rate risk of the banking book, market risks; on the results of credit risk, liquidity risk stress testing;
- consideration of regulatory documents related to pricing, etc.

Tariff Committee

is a permanent deliberative body established to address the management of fees and commissions for banking services and to analyze the ratio of service costs and market competitiveness of the Bank fees and commissions.

Composition of the Tariff Committee as of December 31, 2020

Position	Full name
Head of Committee	Medko M.B.
Deputy Head of Committee	Yergieva S.P.
Member of Committee	Gretska V.O.
Member of Committee	Isnyuk O.S.
Member of Committee	Poghosyan V.V.
Member of Committee	Tyshchenko O.B.
Member of Committee	Prymachenko O.I.
Member of Committee	Puskai S.S.

In 2020, 59 meetings of the Tariff Committee were held, at which 530 issues were considered and a decision was made, in particular on the following:

- setting of individual tariffs for customers;
- approval of fees and commissions for banking services / amendments to the current basic fees and commissions;
- empowering the responsible units to set individual fees and commissions for customers, etc.

Information Security Committee

is permanent deliberative body of the Bank, which ensures the development, implementation, operation, monitoring, review, maintenance and improvement of the information security management system in the Bank by making appropriate decisions.

Composition of the Information Security Committee as of December 31, 2020

Position	Full name
Head of Committee	Muravitski O.O.
Deputy Head of Committee	Konoshchuk V.O. (powers have been terminated since 28.08.2020)
Member of Committee	Bakai A.V. (powers have been terminated since 29.07.2020)
Member of Committee	Kholodovsky M.I.
Member of Committee	Lozova O.V. (powers have been terminated since 24.09.2020)
Member of Committee	Mysnyk A.O.
Member of Committee	Kharchenko A.B.
Member of Committee	Nabok O.M.

In 2020, 1 meeting of the Information Security Committee was held, at which 1 issue was considered and a decision was made, in particular on the following:

- approval of the Plan for implementation and support of the Bank Information Security Management System for 2020, etc.

Problem Assets Workout Committee

is a permanent deliberative body, which determines the conditions for the implementation of measures aimed at repayment of debt on credit transactions, which is recognized as problem debt in accordance with the decisions of the authorized deliberative bodies of the Bank, except for payment card transactions; the possibility and conditions of taking measures for the management of the Bank's property, which is not used in conducting banking operations and does not provide technological support of banking functions.

Composition of the Problem Assets Workout Committee as of December 31, 2020

Position	Full name
Head of Committee	Kaplyuk D.Ie.
Deputy Head of Committee	Shop A.F.
Member of Committee	Kalinichenko O.V.
Member of Committee	Bakumenko D.Yu.
Member of Committee	Kovalenko T.M.
Member of Committee	Lazovskyi O.V.
Member of Committee	Osipov O.L.
Member of Committee	Dolskyi D.V.
Member of Committee	Yergieva S.P.

In 2020, 37 meetings of the Problem Assets Workout Committee were held, at which 100 issues were considered and a decision was made, in particular on the following:

- approval / implementation of a plan of measures to repay problem debts;
- assignment of the right of claim under loan agreements;
- approval of the terms of property sale;
- expediency of appealing against resolutions;
- expediency of acquisition by the Bank of ownership (taking onto the books) of the property pledged as collateral;
- amendments to the Bank's real estate lease agreements;
- write-off of impaired financial assets under credit operations at the expense of loan loss provisions;
- refusal to appropriation by the Bank of unsold assets;
- inexpediency of the Bank joining the procedure of financial restructuring of debtors' liabilities;
- providing round-the-clock protection of the Bank's real estate, etc.

IT Committee

is a permanent deliberative body, which determines the general principles of information technology development in the Bank, provides priority and distribution of tasks, projects, resources, etc. for development, implementation, operation of information technologies / systems of the Bank by taking the relevant decisions

Composition of the IT Committee as of December 31, 2020

Position	Full name
Head of Committee	Muravitski O.O.
Deputy Head of Committee	Iermakov S.O.
Member of Committee	Ignatenko O.S.
Member of Committee	Schur O.V.
Member of Committee	Bakumenko D.Yu.
Member of Committee	Medko M.B.
Member of Committee	Zhukov Ie.V.

In 2020, 7 meetings of the IT Committee were held, at which 10 issues were considered and a decision was made, in particular on the following:

- approval of the Regulation of the IT Committee of the Bank;
- review of current IT resources for the implementation of new projects, rules for allocation of resources by competencies;
- instructions of the Chairman of the IT Committee;

- project approval: Financial monitoring. ISSPA software: Ability to process large-scale data sets using multi-level atypical configuration scenarios in the analysis of customer activities taking into account the risk-oriented approach;
- coordination of costs for updating the iFobs software in terms of SWIFT-payments;
- introduction of a system for confirmation, monitoring and storage of interbank agreements and negotiations carried out in trading platforms, as well as their import into accounting systems;
- introduction of the system of automation of collection and accounting of declarations on external activity of the Bank's employees;
- project initiations: IT platform for servicing the electricity market;
- introduction of a system of distance learning and personnel evaluation through the use of specialized software;
- implementation of the project *Automation of credit administration activities by using the module "Net credit turnover"*, etc.

Operational and Compliance Risk Committee

is a permanent deliberative body of the Bank, which ensures the performance of functions and powers for operational and compliance risk management, defined by the Regulation on the Committee.

Composition of the Operational and Compliance Risk Committee as of December 31, 2020

Position	Full name
Head of Committee	Kaplyuk D.Ie.
Deputy Head of Committee	Bakumenko D.Yu.
Member of Committee	Muravitski O.O.
Member of Committee	Telbizov I.G.
Member of Committee	Markulchak B.M.
Member of Committee	Lazovskyi O.V.
Member of Committee	Oleshko I.I.

In 2020, 6 meetings of the Operational and Compliance Risk Committee were held, at which 14 issues were considered and decisions were made, in particular on the following:

- operational risk event management status;
- reports on the management of key operational risk indicators;
- results of operational risk stress testing;
- review of the status of implementation of decisions of the Operational and Compliance Risk Committee/instructions, etc.

Tender Committee

is a permanent deliberative body, the purpose of the Committee is to organize and conduct procurement procedures to select the most attractive bids for the purchase of goods / performance of works / provision of services required to ensure the business operation of the Bank

Composition of the Tender Committee as of December 31, 2020

Position	Full name
Head of Committee	Iermakov S.O.
Deputy Head of Committee	Kiselyova N.V.
Member of Committee	Muravitski O.O.
Member of Committee	Bakumenko D.Yu.
Member of Committee	Kozak O.M.
Member of Committee	Honon A.S.
Member of Committee	Kyryltsev R.V.

In 2020, 63 meetings of the Tender Committee were held, at which 145 issues were considered and decisions were made, in particular on the following:

- consideration and decision-making regarding the Bank procurement procedures, etc.

9. Information on the facts of violation of internal rules by the members of the Supervisory Board and the executive body of the Bank, which resulted in harm to the Bank or the Bank's customers

There were no violations of internal rules by members of the Supervisory Board and the Management Board of the Bank, which would result in harm to consumers of financial services, during 2020.

10. Information on measures of influence applied by the state authorities to the Bank, including to the members of the Bank Supervisory Board and the executive body during the year.

According to the decision of the state authorities, the fine was imposed to the Bank in the amount of UAH 611 thousand during the year.

No measures of influence were applied to the members of the Supervisory Board and the Management Board of the Bank. At the same time, during 2020, the powers of some members of the Supervisory Board and the Management Board of the Bank were terminated by the decision of the Higher Body and the Supervisory Board of the Bank.

11. Information on the amount of remuneration for the year of the members of the Supervisory Board and the executive body of the Bank.

Remuneration for 2020 of the members of the Supervisory Board¹³ and the Management Board of JSC "Ukreximbank" totaled UAH 77 069 thousand.

12. Information on significant risk factors that affected the Bank operation during the year.

During 2020, the activities of JSC "Ukreximbank" were affected by the following significant risk factors:

Credit risk factors

During 2020, the new management of the Bank, including Chief Risk Officer (CRO), analyzed in detail and reclassified the entire loan portfolio of the Bank, and, accordingly, the estimates of ability by the Bank's debtors to service their debts on asset-side operations were adjusted.

The above became the basis for additional capitalization of the Bank, including the calculation of capital needs, its agreeing with the National Bank of Ukraine and negotiating with the National Bank of Ukraine and the Ministry of Finance of Ukraine. As a result of such works in September 2020, the capital was increased by UAH 6.84 billion at the expense of government bonds for a period of 15 years at 9.2% per annum.

COVID-19

The spread of acute respiratory disease COVID-19 caused by SARS-CoV-2 coronavirus worldwide (pandemic) and the effects of restrictive quarantine measures caused by the pandemic in Ukraine have had a significant impact on the economy (including business activities and their ability to service debts on asset-side operations) and the financial system of Ukraine. In response to the spread of COVID-19, measures have been taken to prevent threats to the health, lives of employees and customers, to ensure the quality and continuity of the Bank operation during the pandemic and relevant restrictive quarantine measures, and to mitigate the effects of COVID-19 on the Bank's activities, including prompt consideration of requests from the Bank's customers to change lending terms and conditions caused by a deterioration in financial condition / decrease in solvency through COVID-19.

Other risk factors

¹³ Remuneration of the members of the Supervisory Board of JSC "Ukreximbank" for 2020 consists of the amount of remuneration, the amount of compensation payments to members of the Supervisory Board and procurement of services made by JSC "Ukreximbank" on its own behalf and at its own expense which are required for the members of the Supervisory Board to perform their duties

In addition, the Bank was affected by the same risk factors that affected the activities of other banking institutions and the banking system of Ukraine as a whole.

13. Information on the Bank's risk management system and its key characteristics.

The Risk Management System (RMS) of the Bank is of key importance for ensuring financial stability, stable operation and facilitating the achievement of the strategic business goals of the Bank development in today's dynamic environment, providing identification, assessment, monitoring, control, mitigation and reporting of the Bank's risks, and as well as continuous analysis of the Bank's risks in order to make timely and adequate management decisions to mitigate risks and reduce related costs.

The Risk Management System of the Bank is comprehensive. The Bank, including its governing bodies, on a regular basis ensures the implementation of measures for the sustainable development of risk management culture and the effectiveness of its operation.

The RMS covers all significant risks to which the Bank is exposed in the course of its operations, namely:

- credit risk;
- liquidity risk;
- interest rate risk of the banking book;
- market risk;
- operational risk;
- compliance risk.

The risk management system of the Bank includes all components required by law, namely:

- organizational structure;
- risk management culture and code of conduct (ethics) of the Bank;
- internal regulations of the Bank on risk management;
- tools for effective risk management in the Bank;
- information systems that ensure the availability of risk management and reporting procedures.

The Bank risk management system is based on the division of responsibilities among all independent structural units and branches of the Bank using the model of three lines of defense:

the first line is at the level of business units of the Bank and the Bank activity support units;

the second line is at the level of the risk management unit and the compliance control unit (compliance);

the third line is at the level of the internal audit unit.

The subjects of the RMS of the Bank are: Supervisory Board; Risk Committee of the Supervisory Board; Rule; Credit Committee; Assets and Liabilities Committee; Operational and Compliance Risk Committee; other deliberative bodies of the Bank; Internal Audit Department; Chief Risk Officer (CRO) and Risk Management Department; Chief Compliance Officer (CCO) and Compliance Control Department; Business units and support units (first line of defense).

During 2020, the Chief Risk Officer (CRO) was appointed at the Bank and a structural transformation of the risk management unit was carried out. Currently, the Risk Management Department is subordinated to the Supervisory Board (through the Chief Risk Officer (CRO) and reports to it. The Risk Management Department is staffed with suitably qualified employees, who perform their duties and assigned risk management tasks as part of fulfillment by the Risk Management Department of both priority tasks and regular work in the course of the Bank regular operation.

During 2020, the Chief Compliance Officer (CCO) was appointed at the Bank and a single independent structural unit for compliance control was established. The Compliance Control Department provides management and control of compliance risk, is subordinated to the Supervisory Board (through the Chief Compliance Officer (CCO)) and reports to it.

Risk management is carried out at all organizational levels of the Bank, including by involving each employee of the Bank in the risk management process and preventing the employee from actions that can lead / will lead to violation of the risk appetite indicators and risk limits established by the Bank.

The RMS includes a wide range of *risk management regulations*, covering both the definition of general requirements (including organizational structure, strategic objectives of risk management, level of risk appetite, etc.) and detailed information on methodological approaches and procedures for risk management (implemented in the Bank by type of risks).

In 2020, the Bank developed and approved such basic documents on risk management as the Recovery Plan, Risk Appetite Statement, the Business Continuity Plan, and the Procedure for Identifying the Impact of Negative Factors on Business Processes. In addition, during the year, methods for credit risk management were reviewed and updated, Early Warning System (EWS) were developed and implemented, ensuring continuous monitoring of credit risk factors, considering issues of further work with debtors, regarding which credit risk factors were identified, and control over the implementation of relevant action plans) and regular credit review.

For the risks management, the Bank performs identification, assessment, continuous and qualitative risk analysis, determination and establishment of acceptable level of risk, risk forecasting, assessment of capital amount taking into account the results of risk assessment and / or forecasting, risk monitoring and control taking into account their level of acceptability for each type of risk, implementation of measures to mitigate / reduce the level of significant risks and risk reporting, in particular, informing the Supervisory Board, the Risk Committee of the Supervisory Board, the Bank Management Board and other deliberative bodies of the Bank (immediately, monthly , quarterly). Risk management is carried out on an ongoing basis with cyclic repetition of the main stages of the process (identification, assessment, monitoring, control, mitigation, reporting), in particular in order to take into account the dynamic change of the level of risks.

The Bank on an ongoing basis monitors risks, their indicators, as well as the actual implementation of measures aimed at minimizing risks and their effectiveness. In case of violation of limits / risk indicators and significant increase of risk (maximum approximation of actual risk indicators to the established limits), the information about that is reported by risk management units to the authorized deliberative bodies of the Bank, including the Management Board and the Supervisory Board.

In order to provide a predictive risk assessment, to determine the ability to withstand risks that the Bank is exposed to in the course of its activities or that may arise in the future, as well as to determine the Bank's ability to withstand the financial market crises, the Bank conducts stress testing on a regular basis in accordance with the requirements of the legislation.

As part of stress testing, the Bank makes quantitative evaluation of risks: credit risk, market risk, interest rate risk in the bank book, liquidity risk and operational risk to determine their impact on capital to enable the Bank to withstand adverse financial market developments. The results of stress testing are communicated to the ALCO, the Management Board of the Bank, the Risk Committee of the Supervisory Board and the Supervisory Board of the Bank.

Risk management in the Bank involves effective interaction at all organizational levels of the Bank (from the Supervisory Board to each employee of the Bank), including proper exchange of information and prudent decision-making with due regard to the adequacy, reliability and relevance of all available information on the issue under consideration, as well as its objective assessment when taking risks.

14. Information on the results of operation during the year of the internal control system, and its key characteristics.

The Bank has implemented an effective and efficient internal control system (ICS).

The Bank internal control system is based on the distribution of responsibilities between the Bank's units. This distribution is based on the use of the model of three lines of defense. The Bank provides not only preliminary and current control, but also implemented measures for independent monitoring of the ICS by the units of the second line of defense (Risk Management Department, Compliance Control Department) and assessment of efficiency, complexity and adequacy of J the ICS by the units of the third line of defense (Internal Audit Department).).

The ICS is integrated with all banking processes, risk management system and corporate governance at all levels. Internal control is provided in absolutely all areas, including decision-making processes and implementation of the Bank strategies, business plans and goals. Besides, employee training was introduced, which, in its turn, helps to develop a culture of internal control in the Bank and assess the quality of the ICS.

An interbank document on the ICS organization and operation - the ICS Policy was approved, which is aimed at ensuring the integration of internal control procedures into all processes and corporate governance of the Bank to achieve operational, informational, compliance goals of the Bank. In addition, the Bank regulations establish the rules of banking operations, an integral part of these documents are control procedures for all stages of business processes, indicating the frequency and timing of conducting control measures, persons responsible for compliance with control procedures depending on the type of operation and the number of units involved in the process.

Based on the results of the Internal Audit Department's assessment of the complexity, adequacy and effectiveness of the Bank internal control system at the end of 2020, a small number of recommendations were provided on improving the methods and means of internal control. No significant shortcomings of the ICS, which would negatively affect the financial performance of the Bank, were specified in the opinions.

15. Information on the results of the operation of the internal audit system during the year.

The Bank Internal Audit function is performed by the Internal Audit Department. The main purpose of the Internal Audit Department (hereinafter - the Department) is to increase the value of the Bank and the Group, which is achieved by conducting objective internal audits and consulting tasks of appropriate quality based on a risk-based approach, providing appropriate recommendations.

The Department is subordinated and reports to the Bank Supervisory Board and to the Audit Committee on its activities. The Audit Committee and the Supervisory Board of the Bank ensure the effective operation of the Department.

The Department operates in accordance with the approved Plan for 2020 and according to the instructions of the Supervisory Board of the Bank.

During 2020, 17 scheduled, 2 unscheduled audits were conducted and 2 consulting services were provided. 30 regulatory documents were prepared: 28 documents and samples related to the practice of internal audit were developed and 2 regulatory documents were updated. In 2020, the Internal Audit Department operated without significant restrictions.

The Internal Audit Department reports on its work on a quarterly basis to the Audit Committee and the Supervisory Board of the Bank, and once every six months to the National Bank of Ukraine.

16. Information on the facts of alienation of assets during the year in the amount exceeding the amount established in the Charter of the Bank.

During 2020, the Bank did not alienate assets in excess of the amount specified in the Charter.

17. Information on the results of evaluation of assets in case of their sale during the year in the amount exceeding the amount specified in the Bank Charter.

During 2020, the Bank did not purchase or sell assets in excess of the amount specified in the Bank Charter.

18. Information on transactions with related parties, including within one industrial-financial group or other association, conducted during the year. Such information is not a commercial secret.

The Bank pays sufficient attention to the identification of the Bank related parties, the formation and updating of the list of the Bank related parties in order to control the risks of transactions with the Bank related parties.

The Bank provides information to the NBU about the Bank related parties on a monthly basis in accordance with the procedure established by the NBU regulations.

Information on transactions with the Bank related parties is specified in Note 30 "Related party transactions" of the annual financial statements of JSC "Ukreximbank" for the year ended 31 December 2020.

19. Information on the activities of the external auditor during 2020.

Ernst & Young Audit Services LLC was appointed the external auditor of the Bank's financial statements for 2020.

General information on the external auditor appointed during 2020 (including the total length of audit experience, the number of years during which it provides audit services to the Bank, a list of other audit services provided to the Bank during 2020)

The total audit experience of Ernst & Young Audit Services LLC is more than 25 years. Ernst & Young Audit Services has been providing audit services to the Bank for the past five years. No other audit services were provided to the Bank during 2020.

Events of conflict of interest and/or combination of functions

There were no events of conflict of interest and/or combination of functions.

Information on the rotation of auditors in the Bank during the past five years

For the past five years, Ernst & Young Audit Services has been an auditing company.

Information on the used recommendations of the bodies that carry out state regulation of financial services markets on the audit opinion

During 2020, the Audit Chamber of Ukraine did not impose penalties to the Bank's external auditor. The bodies that carry out state regulation of financial services markets did not reveal the facts of submission of unreliable statement of the Bank, which is confirmed by the audit opinion.

Opinions of the Audit Committee of the Supervisory Board on the independence of the conducted external audit and the independence of the external auditor

The Audit Committee of the Supervisory Board was responsible for assessing the effectiveness and independence of the Bank's external auditor in 2020. This responsibility was discharged at the Committee's meetings (including with the participation of members of the Bank's Management Board, during which major issues arising from the external audit of the Bank were discussed) and during meetings with members of the Bank's external auditor's team and relevant persons/structural units of the Bank directly involved in the external audit of the Bank's financial statements for 2020.

In assessing the effectiveness of the Bank's external auditor in 2020, the Audit Committee considered external audit as a process as a whole and did not intend to assess the effectiveness of specific individuals providing external audit services. The assessment of the Bank's external auditor's effectiveness covered the own judgement of each member of the Committee on the Bank's external auditor's effectiveness, taking into account the comments of individuals/structural units of the Bank directly involved in the external audit of the Bank's financial statements for 2020.

The Audit Committee evaluated the effectiveness of the Bank's external auditor on the following components:

- 1) the quality of services;
- 2) the availability of tools and resources to perform the audit task;
- 3) communication and interaction during the task;
- 4) independence, objectivity, and professional skepticism.

In particular, the Audit Committee assessed the extent to which the Bank's external auditor adhered to agreed audit deadlines, was friendly and communicative, identified problems in the Bank's activities, opportunities and risks in a timely manner, and ensured optimal price-quality ratio of the external audit. The Audit Committee also considered whether the members of the Bank's external auditor's team were technically competent and able to put the knowledge into practice, whether they understood the Bank's business and the banking industry as a whole and allocated sufficient resources to complete the work in a timely manner. Additionally, the Audit Committee assessed the effectiveness of the Bank's external auditor's communication, integrity and objectivity, open consideration of complex situations and independence.

Based on the results of the assessment, the Audit Committee as of the date of this report believes that the external audit of Ernst & Young Audit Services LLC provides reasonable assurance that the Bank's financial statements for 2020 are free of material misstatement and should be assessed as “meeting expectations” with a reservation on compliance with the agreed deadlines for the audit, as the agreed deadlines for the audit were repeatedly violated by the external auditor.

The assessment of the independence of Ernst & Young Audit Services LLC as the Bank's external auditor was conducted by the Audit Committee on an ongoing basis throughout the service period during 2019 and 2020 and began before the appointment of Ernst & Young Audit Services LLC as the Bank's external auditor. To initiate the assessment of independence, the Audit Committee used the answers of the Bank's external auditor to clarifying questions regarding its independence and the documentary confirmation of such answers. In order to conduct a continuous assessment of independence, the periodic meetings were organised with the key partner of the Bank's external auditor Studynska Yulia, at which, inter alia, it checked the relevance of the external auditor's answers to the clarifying questions.


The results of the Audit Committee's assessment revealed that the independence of the Bank's external auditor LLC “Ernst & Young Audit Services” and the key partner for the audit of the Bank Studynska Yulia during the statutory audit of the annual separate financial statements and annual consolidated statements of the Banking Group of Joint-Stock Company “The State Export-Import Bank of Ukraine” for 2020 (as of 31.12.2020), which was performed in accordance with Agreement for the provision of audit services, was not endangered, and the requirements of the legislation on independence of the external auditor were not violated.

20. Information on the Bank protection of the rights of consumers of financial services, in particular:

Complaints in the Bank are considered in accordance with the Law of Ukraine On Appeals of Citizens, other regulations of Ukraine, as well as internal regulatory documents of the Bank. Complaints of the Bank's clients are considered by the Chairman of the Management Board in accordance with the Law of Ukraine On Appeals of Citizens and the Charter of the Bank, as well as by officers authorized by the Chairman of the Management Board with the right to sign responses to such complaints, and in case of disagreement of the citizen with the decision made on the complaint, the complaint is resolved in court.

In 2020, 80 lawsuits towards the Bank were in the proceedings, which were filed by individuals who applied as consumers of financial services. The claims on 8 of those court cases were denied, the claims on 7 of those court cases were satisfied (1 of them was partially satisfied), 3 court cases were closed, the claims in 6 court cases were left without consideration, 56 claims are pending in the courts.

Chairman of the Management Board



Ie.V. Metsger

Independent auditor's report

To the Shareholder of Joint Stock Company "The State Export-Import Bank of Ukraine"

Report on the audit of the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (hereinafter the "Bank"), which are presented on pages 41 to 128 and comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the annual consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank 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 opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual consolidated financial statements* section of our report. We are independent of the Bank 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 annual 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 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 annual consolidated financial statements of the current period. These matters were addressed in the context of our audit of the annual 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 annual 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 annual consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
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Allowance for expected credit losses of loans to customers

The appropriateness of allowance for expected credit losses (ECL) of loans to customers was significant to our audit because it is a key area of judgment for management. The Bank's ECL allowance calculations are outputs of complex models with a number of underlying assumptions regarding development of ECL models, including the various formulas and the choice of inputs, selection of forward-looking macroeconomic scenarios and their probability weightings, the estimation of the amount and timing of cash flows from collateral etc.

The use of different assumptions could produce significantly different estimates of expected credit losses of loans to customers. Taking into account the significance of the loans to customers balances and high level of subjectivity of assumptions, we considered that assessment for expected credit losses of loans to customers was a key audit matter.

The Bank's management approaches to assessing and managing credit risk are described in Notes 10 and 26 to the annual consolidated financial statements.

Our audit procedures included the assessment of the consistency of the methodology used by the Bank for the assessment of the ECL allowance under IFRS 9 as at 31 December 2020 and for the year then ended.

With respect to allowance for expected credit losses calculated on an individual basis, our audit procedures comprised evaluation of the reasonableness of management assumptions by analysing assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral which were incorporated in multiple scenarios for a sample of loans. In addition, we considered whether the assessment of expected credit losses for the borrowers from industries which directly affected by the business activity restrictions provided by the government (shopping malls, airports, hotels etc.) included current conditions related to COVID-19.

With respect to allowance for expected credit losses calculated on a collective basis, our audit procedures comprised testing of the design and operating effectiveness of the Bank's internal controls in respect of ECL

(ii)

Key audit matter

How our audit addressed the key audit matter

allowance calculation including correctness of identification and calculation of triggers for significant increase in credit risk and credit impairment, staging identification, probabilities of default and loss given default.

We involved our risk management specialists to assist us with the analysis of the validation procedures performed by the Bank's experts in respect of models with forward-looking information on macro-economic factors, which included updated statistical information for 2020 year and changes in economic conditions related to the effects of COVID-19 based on the facts and circumstances at the reporting date.

We also tested the inputs to the underlying models and their mathematical accuracy.

We analysed associated disclosures in Notes 10 and 26 to the annual consolidated financial statements in respect of allowance for expected credit losses of loans to customers.

Valuation of indexed state bonds at fair value through profit or loss

Valuation of indexed state bonds with the embedded foreign exchange derivatives at fair value through profit or loss was a key area of judgments for management due to complexity of estimations regarding the choice of variable inputs, such as risk-free rates in national and foreign currencies, current spot rate and volatility of exchange rate, and subjective valuation techniques.

Taking into account the significance of the carrying amount of indexed state bonds at fair value through profit or loss to the annual consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets to be a key audit matter.

Notes 11 and 27 to the annual consolidated financial statements provide information on the indexed state bonds at fair value through profit or loss.

Our audit procedures in respect of the valuation of indexed state bonds at fair value through profit or loss comprised inquiries of the Bank's management about the significant assumptions applied, consideration and testing of inputs used, including mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the annual consolidated financial statements.

We analysed the Bank's disclosures in relation to the indexed state bonds at fair value through profit or loss.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of deferred tax assets</p> <p>The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2020. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance in our audit because the amounts are material, the assessment process is judgmental, and is based on assumptions that are affected by expected future market and economic conditions.</p> <p>Notes 4 and 15 to the annual consolidated financial statements provide information on the judgements and amounts of deferred tax asset.</p>	<p>Our audit procedures comprised evaluation of the reasonableness of management assumptions in relation to deferred tax asset's recoverability by analysing the availability of sufficient future taxable profits based on the business plan and the forecast. We discussed the underlying judgements with the Bank's management, tested tax positions and timing of future deductions. In addition, we considered the historical accuracy of management's estimates by comparing budgeted and actual data. We also compared the assumptions used in the business plan and the forecast with available banking market information and the overall Ukrainian economy projections, including effects of COVID-19.</p> <p>We also analysed the deferred tax asset disclosures prepared by the Bank and presented in the annual consolidated financial statements.</p>

Other information included in the Consolidated Management Report and Annual Information of the Issuer of Securities for 2020

Other information comprises the Bank's Consolidated Management Report (including the Corporate Governance Report), but does not include the annual consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and other information in the Annual Information of the Issuer of Securities, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the annual 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 annual 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 annual 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.

When we read the Annual Information of the Issuer of Securities, if we conclude that there is a material misstatement therein, we will communicate the matter to Supervisory board.

Responsibilities of management and Supervisory board for the annual consolidated financial statements

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

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

The Supervisory board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the annual consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual consolidated financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the annual 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual 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 Bank's subsidiaries to express an opinion on the annual consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

We communicate with the Supervisory board 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 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, we determine those matters that were of most significance in the audit of the annual 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 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine №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 Bank's annual consolidated financial statements, Consolidated Management Report is prepared in accordance with requirements of Instruction No. 373 and information given is consistent with the financial statements.

We are required to report if we have identified material misstatements in the Consolidated Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's annual 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 Bank's annual consolidated financial statements on 13 April 2017 by the Supervisory board. Our appointment renewed annually by the Supervisory board. On 8 November 2019 our appointment has been approved by the Supervisory board for a total period of uninterrupted engagement for performing the statutory audit of two years. The period of total uninterrupted engagement for performing the statutory audit of the Bank is five years.

Consistency of the independent auditor's report with the additional report to the audit committee


We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 15 April 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 and which have not been disclosed in the annual consolidated financial statements or the consolidated management report.

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

For and on behalf of 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



Pryshchepko Y.Y.
Auditor

Registration number in the Register of
auditors and audit firms: 101251

Kyiv, Ukraine

16 April 2021

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

Translation from Ukrainian original

Joint Stock Company
"The State Export-Import Bank of Ukraine"

Annual consolidated financial statements
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(thousands of Ukrainian hryvnia)

	Notes	31 December 2020	31 December 2019 (restated)	1 January 2019 (restated)
Assets				
Cash and cash equivalents	6	49,912,943	33,469,935	18,545,858
Amounts due from credit institutions	9	370,160	256,172	569,890
Loans to customers	10	48,608,320	53,285,804	72,496,358
Investment securities:	11			
- at fair value through profit or loss		29,008,521	25,731,949	26,653,561
- at fair value through other comprehensive income		14,543,523	22,633,899	35,789,095
- at amortised cost		45,174,610	—	49,855
Current income tax assets	15	250,331	246,882	161,080
Non-current assets held for sale		22,241	—	39,614
Investment property	12	1,143,451	1,035,586	1,153,243
Property and equipment and right-of-use assets	13	1,967,759	1,616,461	1,646,109
Intangible assets	14	51,984	59,173	54,266
Deferred income tax asset	15	1,175,372	1,463,771	2,033,021
Other assets	16	646,060	546,692	2,451,523
Total assets		192,875,275	140,346,324	161,643,473
Liabilities				
Amounts due to the National Bank of Ukraine	17	16,008,768	—	—
Amounts due to credit institutions	18	26,119,028	21,825,762	24,405,913
Amounts due to customers	19	115,581,108	76,621,910	81,856,023
Eurobonds issued	20	18,537,152	26,553,076	42,541,905
Subordinated debt	21	4,341,176	5,429,914	3,584,690
Provision for credit-related commitments	23	135,531	49,062	71,796
Other liabilities	16	1,803,616	949,375	731,553
Total liabilities		182,526,379	131,429,099	153,191,880
Equity				
Share capital	22	45,570,041	38,730,042	38,730,042
Revaluation reserves		525,683	337,779	(816,406)
Result from transactions with the shareholder		635,104	635,104	635,104
Accumulated deficit		(36,589,390)	(30,948,626)	(30,260,073)
Reserve and other funds		207,458	162,926	162,926
Total equity		10,348,896	8,917,225	8,451,593
Total equity and liabilities		192,875,275	140,346,324	161,643,473

Authorised for release and signed

Chairman of the Management Board

Ie.V. Metsger

Chief Accountant

N.A. Potemka

16 April 2021

V.M. Medko
247-89-16

Notes on pages 46-128 form an integral part of these annual consolidated financial statements.

Joint Stock Company
"The State Export-Import Bank of Ukraine"

Annual consolidated financial statements
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the year ended 31 December 2020

(thousands of Ukrainian hryvnia)

	Notes	2020	2019 (restated)
Interest income			
Interest income calculated using effective interest rate:			
- loans to customers		5,314,246	7,230,491
- investment securities at fair value through other comprehensive income		1,255,327	2,337,146
- investment securities at amortised cost		1,360,162	2,724
- amounts due from credit institutions		459,676	349,279
Other interest income:			
- investment securities at fair value through profit or loss		1,229,703	1,226,328
- finance leasing		413,631	422,836
		10,032,745	11,568,804
Interest expense			
Amounts due to customers		(4,052,055)	(4,537,990)
Eurobonds issued		(2,843,033)	(3,469,631)
Amounts due to credit institutions		(1,070,778)	(1,441,216)
Subordinated debt		(437,746)	(339,913)
Amounts due to the National Bank of Ukraine		(258,731)	(2,877)
Other interest expenses		(1,114)	(1,509)
		(8,663,457)	(9,793,136)
Net interest income		1,369,288	1,775,668
Net losses on modification of financial assets at amortised cost		(119,021)	(254,832)
Net gains on derecognition of financial assets at amortised cost		413,121	146,144
Net losses on derecognition of financial liabilities at amortised cost		(384,396)	—
Expenses for expected credit losses	8	(4,324,502)	(2,889,218)
(Expenses)/reversal of expenses for expected credit losses on credit-related commitments	8	(82,080)	18,619
Commission income		877,052	1,082,054
Commission expense		(328,741)	(430,266)
Net gains/(losses) on investment securities at fair value through profit or loss		3,450,489	(924,980)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement		(34,113)	(7,780)
Net gains/(losses) from foreign currencies:			
- dealing		366,193	541,206
- translation differences		(4,436,620)	3,970,946
Net gains/(losses) from transactions with derivatives:			
- dealing		(9,828)	—
- revaluation		107,108	—
Net gains from precious metals:			
- dealing		327	138
- revaluation		4,274	489
Other income		283,659	104,883
Personnel expenses	25	(1,496,732)	(1,520,639)
Depreciation and amortisation	13, 14	(114,177)	(111,058)
Other operating expenses	25	(856,807)	(866,796)
(Loss)/profit before tax		(5,315,506)	634,578
Income tax expense	15	(275,861)	(569,298)
(Loss)/profit for the year		(5,591,367)	65,280

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Chairman of the Management Board

Ie.V. Metsger

Chief Accountant

N.A. Potemskas

16 April 2021

V.M. Medko
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Notes on pages 46-128 form an integral part of these annual consolidated financial statements.

Joint Stock Company
"The State Export-Import Bank of Ukraine"

Annual consolidated financial statements
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(thousands of Ukrainian hryvnia)

	Notes	2020	2019
(Loss)/profit for the year		(5,591,367)	65,280
Other comprehensive income			
<i>Other comprehensive (loss)/income to be reclassified to the consolidated statement of profit and loss in subsequent periods</i>			
Net (losses)/gains on investment securities at fair value through other comprehensive income	22	(127,815)	1,167,422
Income tax relating to components of other comprehensive income		—	—
<i>Other comprehensive income not to be reclassified to the consolidated statement of profit and loss in subsequent periods</i>			
Revaluation of property and equipment		342,478	—
Income tax relating to components of other comprehensive income		(12,538)	—
Other comprehensive income for the year, net of tax		<u>202,125</u>	<u>1,167,422</u>
Total comprehensive (loss)/income for the year		<u>(5,389,242)</u>	<u>1,232,702</u>

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Chairman of the Management Board

 Ie.V. Metsger

Chief Accountant



N.A. Potemka

16 April 2021

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2020***(thousands of Ukrainian hryvnia)*

	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Result from transactions with the shareholder</i>	<i>Accumulated deficit</i>	<i>Reserve and other funds</i>	<i>Total equity</i>
At 1 January 2019	38,730,042	(816,406)	635,104	(30,260,073)	162,926	8,451,593
Income for the year	—	—	—	65,280	—	65,280
Other comprehensive income for the year	—	1,167,422	—	—	—	1,167,422
Total comprehensive income for the year	—	1,167,422	—	65,280	—	1,232,702
Depreciation of revaluation reserve, net of tax (Note 22)	—	(13,237)	—	13,237	—	—
Part of profit allocated for payment of dividends (Note 22)	—	—	—	(767,070)	—	(767,070)
At 31 December 2019	38,730,042	337,779	635,104	(30,948,626)	162,926	8,917,225
Loss for the year	—	—	—	(5,591,367)	—	(5,591,367)
Other comprehensive income for the year	—	202,125	—	—	—	202,125
Total comprehensive loss for the year	—	202,125	—	(5,591,367)	—	(5,389,242)
Depreciation of revaluation reserve, net of tax (Note 22)	—	(14,221)	—	14,221	—	—
Part of profit allocated for payment of dividends (Note 22)	—	—	—	(19,086)	—	(19,086)
Profit allocation to the reserve funds	—	—	—	(44,532)	44,532	—
Increase in share capital (Note 22)	6,839,999	—	—	—	—	6,839,999
At 31 December 2020	45,570,041	525,683	635,104	(36,589,390)	207,458	10,348,896

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Chairman of the Management Board


 Ie. V. Metsger

Chief Accountant


 N.A. Potemka

16 April 2021

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Joint Stock Company
"The State Export-Import Bank of Ukraine"

Annual consolidated financial statements
for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

For the year ended 31 December 2020

(thousands of Ukrainian hryvnia)

	Notes	2020	2019
Cash flows from operating activities			
Interest received		9,727,307	10,403,230
Interest paid		(8,824,460)	(9,464,510)
Commissions received		889,676	1,112,140
Commissions paid		(328,741)	(430,266)
Result from dealing in foreign currencies and precious metals		366,520	541,344
Results from transactions with derivatives		(9,828)	—
Personnel expenses paid		(1,550,272)	(1,517,929)
Other operating income received		136,983	103,666
Other operating and administrative expenses paid		(803,903)	(733,565)
Cash flows from operating activities before changes in operating assets and liabilities		(396,718)	14,110
<i>Net (increase)/ decrease in operating assets</i>			
Amounts due from credit institutions		(16,330)	275,193
Loans to customers		8,580,118	11,350,584
Other assets		36,262	347,485
<i>Net increase/ (decrease) in operating liabilities</i>			
Amounts due to credit institutions		735,031	(888,684)
Amounts due to the National Bank of Ukraine		16,008,811	—
Amounts due to customers		28,022,404	3,223,094
Other liabilities		1,370,739	(278,794)
Net cash flows from operating activities before income tax		54,340,317	14,042,988
Income tax paid in advance		(3,449)	(138,140)
Net cash flows from operating activities		54,336,868	13,904,848
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		16,205,364	25,236,732
Purchase of investment securities		(44,230,733)	(12,762,719)
Dividends received		699	394
Purchases of property, equipment and intangible assets		(74,629)	(75,165)
Net cash flows from investing activities		(28,099,299)	12,399,242
Cash flows from financing activities			
Part of profit allocated for payment of dividends		(19,086)	(767,070)
Lease payments	7	(5,242)	(5,154)
Proceeds from subordinated debt	7	—	2,397,803
Redemption of subordinated debt	7	(1,838,315)	—
Redemption of Eurobonds issued	7	(12,442,092)	(11,730,648)
Proceeds from borrowings from credit institutions	7	6,088,340	5,470,370
Repayment of borrowings from credit institutions	7	(7,355,522)	(3,939,153)
Net cash flows from financing activities		(15,571,917)	(8,573,852)
Effect of changes in exchange rates on cash and cash equivalents		5,786,030	(2,793,196)
Effect of changes in credit losses on cash and cash equivalents		(8,674)	(12,965)
Net change in cash and cash equivalents		16,443,008	14,924,077
Cash and cash equivalents, 1 January		33,469,935	18,545,858
Cash and cash equivalents, 31 December	6	49,912,943	33,469,935

Authorised for release and signed

Chairman of the Management Board

Ie.V. Metsger

Chief Accountant

N.A. Potemskaya

16 April 2021

V.M. Medko
247-89-16

Notes on pages 46-128 form an integral part of these annual consolidated financial statements.

(thousands of Ukrainian hryvnia, unless otherwise stated)

1. Principal activities

Joint Stock Company "The State Export-Import Bank of Ukraine" ("Ukreximbank") was founded in 1992. Ukreximbank operates under banking licence #2 dated 7 August 2019.

As at 31 December 2020 and 2019, 100% of Ukreximbank's shares were owned by the State of Ukraine. The Cabinet of Ministers of Ukraine performs the functions of managing the state's corporate rights at the Bank.

Ukreximbank's head office is located in Kyiv at 127 Antonovycha Street. It has 22 branches and 38 outlets (31 December 2019: 22 branches and 38 outlets) and two representative offices located in London and New-York. Ukreximbank and its branches form a single legal entity.

Traditionally, the main focus of Ukreximbank's operations was the servicing of various export-import transactions. Currently, Ukreximbank's customer base is diversified and includes a number of large industrial and state-owned enterprises. Ukreximbank accepts deposits from entities and individuals, issues loans, transfers payments in Ukraine and internationally, exchanges currencies, makes investments, provides cash and settlements, and renders other banking services to its customers.

One of Ukreximbank's main activities is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. Ukreximbank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank's aim (in accordance with the Charter) is to create favourable conditions for the economic development and support of the domestic producers, to service export and import operations, to provide credit and financial support of restructuring processes, to strengthen and implement the industrial and trade potential of the industries and manufacturers that are export-oriented or carry out the activities related to the production of import-substituting products, and also to receive gains in favor of the Bank and its shareholder.

Ukreximbank prepares the separate annual financial statements and annual consolidated financial statements that comprise performance indicators of Ukreximbank and its subsidiaries: "Leasing Company "Ukreximleasing" and "Eximleasing" LLC (together referred to as the "Bank").

"Ukreximleasing", a 100% owned subsidiary, was founded in 1997 and is registered and operates in Ukraine in the trading and leasing business.

"Eximleasing" LLC, a 100% owned subsidiary, was founded in 2006 and registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Law of Ukraine *On Accounting and Financial Reporting in Ukraine* # 996-XIV of 16 July 1999 in respect of the preparation of financial statements (as amended).

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the *Summary of significant accounting policies*, for example, investment securities at fair value through other comprehensive income, investment securities at fair value through profit or loss, derivatives and investment property are measured at fair value, buildings are measured at revalued amount, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

These annual consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated.

(thousands of Ukrainian hryvnia, unless otherwise stated)

2. Basis of preparation (continued)

Restatement

In previous periods, the Bank modified the terms of certain credit-impaired loans to customers and other financial assets by changing in currency of the asset without change in the payment schedules, which represents a substantial modification. The Bank did not record the derecognition of the original financial assets and recognition of the new financial assets, which were credit-impaired at initial recognition, as the result of those substantial modifications. The Bank also retained other accrued income due under a financial guarantee agreement settled by the Bank as a separate financial asset rather than as part of the asset originated from the settlement of the guarantee. As the result, expected credit loss expense was overstated and losses on derecognition of financial assets at amortised cost were understated by UAH 146,803 thousand in the statement of profit and loss for the year ended 31 December 2019. Moreover, both gross carrying value and allowance for impairment of loans to customers and other financial assets were overstated as at 31 December 2019 and for loans to customers as at 1 January 2019.

In addition, in 2019 the Bank recorded UAH 292,947 thousand of gains on derecognition of financial assets measured at amortised cost arising from substantial modifications within net gains/(losses) on modification of financial assets at amortised cost, together with the results of modifications that did not result in derecognition of the financial assets. The Bank corrected that errors in these annual consolidated financial statements as at and for the year ended 31 December 2020.

According to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* the correction of errors was made retrospectively.

Outlined in the following table is effects of correction of error on the comparative information in the annual consolidated financial statements for the year ended 31 December 2020:

Consolidated] statement of profit and loss for the year ended 31 December 2020:

	<i>As previously reported</i>	<i>Effect of correction of errors</i>	<i>As restated</i>
Net gains/(losses) on modification of financial assets at amortised cost	38,115	(292,947)	(254,832)
Net gains on derecognition of financial assets at amortised cost	—	146,144	146,144
(Expenses)/reversal of expenses for expected credit losses	(3,036,021)	146,803	(2,889,218)
Income for the year	65,280	—	65,280

Correction of error had the following effect on the comparative information presented in the notes to annual consolidated financial statements:

Note 8. Expenses for expected credit losses

The table below shows the ECL recorded in profit or loss:

<i>For 2019</i>	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Loans to customers (as previously reported)	(410,764)	(39,925)	51,299	92,701	1,621,483	1,701,123	3,015,917
Effect of correction of errors	—	—	—	—	(622,192)	475,389	(146,803)
Loans to customers (restated)	(410,764)	(39,925)	51,299	92,701	999,291	2,176,512	2,869,114
Total expenses / (reversal of expenses) for expected credit losses (as previously reported)	(385,332)	(39,925)	51,299	92,695	1,616,161	1,701,123	3,036,021
Effect of correction of errors	—	—	—	—	(622,192)	475,389	(146,803)
Total expenses / (reversal of expenses) for expected credit losses (restated)	(385,332)	(39,925)	51,299	92,695	993,969	2,176,512	2,889,218

(thousands of Ukrainian hryvnia, unless otherwise stated)

2. Basis of preparation (continued)

Restatement (continued)

Note 10. Loans to customers

Loans to customers comprise:

	31 December 2019 (as previously reported)	Effect of correction of errors	31 December 2019 (restated)	1 January 2019 (as previously reported)	Effect of correction of errors	1 January 2019 (restated)
Commercial loans	106,196,634	(3,120,622)	103,076,012	134,331,150	(209,491)	134,121,659
Finance lease receivables	2,401,967	—	2,401,967	1,360,897	—	1,360,897
Overdrafts	890,961	—	890,961	1,457,972	—	1,457,972
Promissory notes	58,089	—	58,089	74,717	—	74,717
	<u>109,547,651</u>	<u>(3,120,622)</u>	<u>106,427,029</u>	<u>137,224,736</u>	<u>(209,491)</u>	<u>137,015,245</u>
Less: allowance for impairment	(56,261,847)	3,120,622	(53,141,225)	(64,728,378)	209,491	(64,518,887)
Loans to customers at amortised cost	<u>53,285,804</u>	<u>—</u>	<u>53,285,804</u>	<u>72,496,358</u>	<u>—</u>	<u>72,496,358</u>

Commercial loans

The following tables show the analysis of changes in the gross carrying amount and the corresponding allowances for commercial loans:

	Stage 1 Collective	Stage 2 Collective	Stage 2 Individual	Stage 3 Collective	Stage 3 Individual	POCI	Total
Gross carrying amount at 1 January 2019 (as previously reported)	51,764,580	568,180	2,371,484	6,549,920	71,369,112	1,707,874	134,331,150
Effect of correction of errors	—	—	—	—	(660,362)	450,871	(209,491)
Gross carrying amount at 1 January 2019 (restated)	<u>51,764,580</u>	<u>568,180</u>	<u>2,371,484</u>	<u>6,549,920</u>	<u>70,708,750</u>	<u>2,158,745</u>	<u>134,121,659</u>
Gross carrying amount at 31 December 2019 (as previously reported)	34,576,277	913,212	2,617,032	6,381,029	57,695,897	4,013,187	106,196,634
Effect of correction of errors	—	—	—	—	(4,494,667)	1,374,045	(3,120,622)
Gross carrying amount at 31 December 2019 (restated)	<u>34,576,277</u>	<u>913,212</u>	<u>2,617,032</u>	<u>6,381,029</u>	<u>53,201,230</u>	<u>5,387,232</u>	<u>103,076,012</u>
Allowance at 1 January 2019 (as previously reported)	999,187	91,662	198,347	6,258,714	57,110,096	—	64,658,006
Effect of correction of errors	—	—	—	—	(305,148)	95,657	(209,491)
Allowance at 1 January 2019 (restated)	<u>999,187</u>	<u>91,662</u>	<u>198,347</u>	<u>6,258,714</u>	<u>56,804,948</u>	<u>95,657</u>	<u>64,448,515</u>
Allowance at 31 December 2019 (as previously reported)	389,088	50,542	173,965	6,049,750	47,781,797	1,762,559	56,207,701
Effect of correction of errors	—	—	—	—	(3,691,668)	571,046	(3,120,622)
Allowance at 31 December 2019 (restated)	<u>389,088</u>	<u>50,542</u>	<u>173,965</u>	<u>6,049,750</u>	<u>44,090,129</u>	<u>2,333,605</u>	<u>53,087,079</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

2. Basis of preparation (continued)

Restatement (continued)

Note 16. Other assets and liabilities

Other assets comprise:

	31 January 2019 (as previously reported)	Effect of correction of errors	31 December 2019 (restated)	1 January 2019 (as previously reported)	Effect of correction of errors	1 January 2019 (restated)
Other financial assets						
Other accrued income	332,949	(302,952)	29,997	363,981	(302,952)	61,029
Transit accounts on operations with payment cards	182,067	–	182,067	169,002	–	169,002
Accounts receivable on operations with customers	56,664	–	56,664	64,987	–	64,987
Accrued service fee on guarantees issued	15,936	–	15,936	18,804	–	18,804
Other	105	–	105	122	–	122
	<u>587,721</u>	<u>(302,952)</u>	<u>284,769</u>	<u>616,896</u>	<u>(302,952)</u>	<u>313,944</u>
Less: allowance for expected credit losses	<u>(388,117)</u>	<u>302,952</u>	<u>(85,165)</u>	<u>(389,595)</u>	<u>302,952</u>	<u>(86,643)</u>
Other financial assets	<u>199,604</u>	<u>–</u>	<u>199,604</u>	<u>227,301</u>	<u>–</u>	<u>227,301</u>

The following table shows the analysis of changes in the gross carrying amount and the corresponding ECL on other financial assets (except for transit accounts on operations with payment cards):

	Stage 1 Collective	Stage 3 Individual	Total
Gross carrying amount at 1 January 2019 (as previously reported)	144,942	302,952	447,894
Effect of correction of errors	–	(302,952)	(302,952)
Gross carrying amount at 1 January 2019 (restated)	<u>144,942</u>	<u>–</u>	<u>144,942</u>
	Stage 1 Collective	Stage 3 Individual	Total
Allowance at 1 January 2019 (as previously reported)	86,643	302,952	389,595
Effect of correction of errors	–	(302,952)	(302,952)
Allowance at 1 January 2019 (restated)	<u>86,643</u>	<u>–</u>	<u>86,643</u>

The correction of error did not have any impact on the consolidated statement of the financial position, other comprehensive income or the Bank's operating, investing and financing cash flows.

Reclassifications

The Bank decided to transfer the balances recorded on transit accounts for customer transactions from amounts due to customers to other liabilities in order to bring it into line with the format of data presentation in 2020.

Outlined in the following table is effects of the reclassification on the comparative information in the annual consolidated financial statements for the year ended 31 December 2020:

Consolidated statement of financial position

	31 December 2019 (as previously reported)	Effect of reclassification	31 December 2019 (restated)	1 January 2019 (as previously reported)	Effect of reclassification	1 January 2019 (restated)
Amounts due to customers	77,125,819	(503,909)	76,621,910	82,163,124	(307,101)	81,856,023
Other liabilities	445,466	503,909	949,375	424,452	307,101	731,553

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of these annual consolidated condensed financial statements are consistent with those followed in the preparation of the Bank's consolidated annual financial statements for the year ended 31 December 2019, except for the adoption of the new standards and amendments thereto applied for the first time from 1 January 2020. The nature and effect of these changes are disclosed below.

The Bank has early adopted the Amendment to IFRS 16: *COVID-19 Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3 Definition of a Business

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

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

Amendments to IFRS 7, IAS 9 and IFRS 39 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. These amendments had no impact on consolidated financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IFRS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

Financial assets and liabilities, except loans to customers and amounts due to customers, are recognised on the transaction date i.e. the date when the Bank becomes a party to the agreement specifying the terms of the respective instrument. These are regular purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Loans to customers are recognised when funds are transferred to the customers' accounts. Amounts due to customers are recognised when funds are transferred to accounts with the Bank.

Initial measurement of financial instruments

Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. If the fair value of financial instruments at initial recognition differs from the transaction price, the Bank recognises Day 1 gain or loss.

All financial assets, except for equity and derivative instruments, are classified and measured at initial recognition based on the business model used by the Bank to manage a particular group of assets, which a financial asset is attributed to, as well as the characteristics of contractual cash flows from this financial asset.

The business model is determined at the level of groups of financial assets that are managed collectively to achieve a particular business goals.

All debt financial assets are held within one of three business models:

- ▶ Business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- ▶ Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- ▶ Business model whose objective is collecting maximum cash flows from sale of assets or business model other than BM 1 and BM 2 (BM 3).

At the date of initial recognition of each debt financial asset, other than those classified by the Bank as measured at FVPL for the purpose of eliminating or significantly reducing a measurement or recognition inconsistency, as well as those managed under BM 3, the Bank performs an analysis of contractual cash flows from such financial asset.

The main objective of the contractual cash flows analysis (SPPI test) is to determine whether the terms of agreement on a financial asset conform to the underlying loan agreement and identify the terms of agreement which result in additional risks and/or additional volatility of contractual cash flows not inherent with the underlying loan agreement.

The Bank performs SPPI test at the level of a separate debt financial asset/group of debt financial assets of the respective category of assets managed under BM 1 or BM 2.

Financial assets and liabilities measurement categories

Depending on the business model and the results of the SPPI test, the debt financial assets can be classified as follows:

- ▶ Assets at amortised cost (BM 1, SPPI test passed);
- ▶ Assets at fair value through other comprehensive income (BM 2; SPPI test passed);
- ▶ Assets at fair value through profit or loss (BM 1 or BM 2 and SPPI test failed, BM 3).

The Bank classifies and measures derivative instruments and instruments held for trading at FVPL.

Financial liabilities, other than credit-related commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading and are derivative instruments, or at the Bank's discretion are classified at FVPL.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

The Bank measures financial assets at amortised cost only if both of the following conditions are met:

- ▶ The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (BM 1);
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit and loss when financial assets are derecognised or impaired, as well as through the amortisation process.

Debt instruments at fair value through other comprehensive income

The Bank measures debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- ▶ A debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (BM 2);
- ▶ The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. SPPI criteria are met).

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. For debt instruments measured at FVOCI the Bank recognises allowance for expected credit losses (ECLs). The procedure for recognising ECLs on such assets is provided in Note 26.

Equity instruments at fair value through other comprehensive income

Upon initial recognition of equity financial assets, the Bank occasionally elects to classify irrevocably some of such assets as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss. Dividends are recognised in profit or loss when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings / (accumulated losses).

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

This category includes financial assets and financial liabilities which, upon initial recognition, were classified as such at the Bank's discretion or should be measured at fair value through profit or loss under IFRS 9. The Bank may, at initial recognition, designate a financial instrument as measured at fair value through profit or loss if one of the following criteria is met: Such classification is determined on an instrument-by-instrument basis:

- ▶ If it eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- ▶ A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- ▶ A financial liability contains one or more embedded derivatives and the host is not an asset within the scope IFRS 9, unless the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

All debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss. Under this criterion, such instruments as Ukrainian state bonds that provide for indexation of the nominal value by maturity according to the changes in the average interbank UAH/USD exchange rate per month prior to the date of issue and per month prior to the maturity date (Note 12), are measured at FVPL.

Financial assets and liabilities at FVPL are recognised in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss, except for a change in the fair value of financial liabilities classified at the Bank's sole discretion at fair value through profit or loss caused by changes in its own credit recognised in other comprehensive income.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

Financial guarantees, letters of credit and credit-related commitments

In the normal course of business the Bank issues financial guarantees in the form of letters of credit, guarantees and avals. Financial guarantees are initially recognised as other liabilities in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount of amortised commission and an ECL provision.

Increase in liability related to financial guarantee agreements is recognised in the consolidated statement of profit and loss. The commission received is recognised in the consolidated statement of profit and loss on a straight-line basis over the term of the guarantee agreement.

The contractual nominal value of financial guarantees is not recorded in the consolidated statement of financial position.

Reclassification of financial assets and financial liabilities

The Bank reclassifies all financial assets only when it changes its business model of management thereof. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, NBU deposit certificates for up to 90 days, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions, the NBU or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the annual consolidated financial statements. Securities borrowed are not recorded in the annual consolidated financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of profit and loss. The obligation to return them is recorded at fair value as a trading liability.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- ▶ Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.
- ▶ It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- ▶ It is settled at a future date.

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets, as well as interest rate swaps. These financial instruments are recorded at fair value through profit or loss. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from transactions with currency forwards and swaps are included in the consolidated statement of profit and loss as net gains/(losses) from foreign currencies, and gains and losses from transactions with interest rate swaps are included in the consolidated statement of profit and loss as net gains/(losses) from transactions with derivatives.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative that is a component of a hybrid instrument of the host that is a financial asset is not separated but is recorded as part of such a hybrid financial instrument classified as a whole as designated at fair value through profit or loss.

Promissory notes

Promissory notes purchased are included in trading securities, or in loans, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, loans received from international and other financial organisations and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Leases

Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Leases – Bank as a lessee

Right-of-use assets

The Bank 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.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include 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 Bank 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, in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the lease commencement date, the amount of lease liabilities is increased to reflect the accrual of interest and reduced to reflect 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 an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank does not recognise a contract to be a lease contract in case of short-term leases and leases of low-value underlying assets and accounts for no right-of-use assets and lease liabilities. Under such contracts, lease payments are recognised as expense on a straight-line basis over the lease term specified by the contract.

A short-term lease is the lease, which as at the lease commencement date according to the lease contract has the lease term of 12 months or less, and this lease contract includes no automatic lease extension conditions, and the bank does not intend to extend the lease term specified by the contract, nor it intends to acquire the underlying asset. A low value of the underlying asset is the value, which is less than the UAH equivalent of USD 5,000.00 at NBU's official UAH exchange rate to foreign currency as at the date of completion of the appropriate lease contract.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Leases (continued)

Significant judgement in determining the lease term of contracts with extension options

The Bank determines the lease term following the lease term specified in the completed contract as at the date of its completion.

If following the lease contract the lease term is 12 months or less as at the lease commencement date, the automatic lease extension conditions being included, and the bank intends to extend the lease term, then the lease term under such contract is determined as the term specified by the contract and increased for the extension term.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention 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.

Derecognition of financial assets and liabilities

*Derecognition due to substantial modification of terms and conditions**Financial assets*

The Bank derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. When assessing whether or not to derecognise a financial asset, amongst others, the Bank considers such factors as a change in currency of a financial assets, change in counterparty, interest rate revision to the market rate, as well as whether the modification is such that the instrument would no longer meet the SPPI criterion. Upon initial recognition, loans are classified as Stage 1 for ECL measurement purpose, unless the new loan is deemed to be purchased or originated credit impaired financial asset.

If the modification does not result in derecognition of a financial asset, based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss from modification of financial assets in *Net gains/(losses) on modification of financial assets at amortised cost* in the consolidated statement of profit and loss.

Financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit and loss.

Terms are considered significantly different if the discounted present value of cash flows on new terms, including any fees paid, net of any fees received and discounted at the original effective interest rate, differs by at least 10% from the discounted present value of remaining cash flows on the original financial liability. If an exchange of debt instruments or a change in terms is accounted for as repayment, then any expenses or commissions paid are recognised as part of gains or losses on repayment. If an exchange or change in terms is not accounted for as repayment, then any expenses and fees paid adjust the carrying amount of the liability and are amortised over the life of the modified liability.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ The rights to receive cash flows from the financial asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Asset management

The Bank provides fiduciary management services construction financing funds ("CFF"). The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss.

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Following initial recognition at cost, buildings and land are subsequently carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the property revaluation reserve, which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit and loss, in which case the increase is recognised in the consolidated statement of profit and loss. A revaluation deficit is recognised in the consolidated statement of profit and loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

The transfer from the property revaluation reserve to retained earnings / (accumulated deficit) is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings / (accumulated deficit).

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<i>Years</i>
Buildings	15-75 years
Furniture, fittings and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value.

Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit and loss in gains/(losses) less (losses)/gains on revaluation of investment property in the year in which they arise.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss if events or changes in circumstance indicate that the carrying amount of assets held for sale may be impaired.

Provisions for other losses

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Small and medium-sized business and Interbank and investments business.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(thousands of Ukrainian hryvnia, unless otherwise stated)

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 are not considered financial instruments. Performance guarantees are initially recognised at fair value, as evidenced by the amount of compensation received for issuing them, which is subsequently amortised to the Bank's commission income on off-balance transactions on a straight-line basis over the life of a performance guarantee. Performance guarantees are accounted for in off-balance-sheet in the amount of guarantee commitments. Subsequently, performance guarantees are measured at greater of: the amount of amortised commission and allowance for possible losses on the performance guarantee issued.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

Under IFRS 9, interest income on all financial instruments measured at amortised cost, at FVOCI and, at discretion, at FVPL is calculated by applying the effective interest method. Effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the financial instrument and are an integral part of the effective interest rate, but not future credit losses.

If expected cash flows from financial assets are reviewed for reasons not related to credit risk, the adjustment is disclosed in the statement of financial position as a positive or negative change in the carrying amount of the asset and as an increase or decrease in interest income. The amount of this adjustment is subsequently amortised and recognised in profit or loss as interest income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets, except for credit-impaired financial assets.

When a financial asset becomes credit-impaired and, accordingly, is attributed to Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired financial asset, the Bank calculates interest income using the credit-adjusted EIR to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Upon recovery of impairment of credit-impaired financial assets as a result of the client's repayment of debt on accrued income, whether or not such a recovery of impairment results in the transfer of a financial asset from Stage 3, the difference between the amount of interest calculated at the effective interest rate on the gross carrying amount and the interest income calculated at the effective interest rate on the amortised cost of a financial asset, is recognised as an adjustment (decrease) of the expected credit losses to the amount recognised as an adjustment to interest income in prior years.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit and loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Commission income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees arising from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees related a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

Annual consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2020 and 2019 were UAH 28.2746 and UAH 23.6862 to 1 US dollar and UAH 34.7396 and UAH 26.4220 to 1 euro, respectively.

Future changes in accounting policies

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* 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. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- ▶ Separate the insurance coverage component and apply IFRS 17 to it;
- ▶ Apply other applicable standards (such as IFRS 9, IFRS 15 or IAS 37) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity shall apply this amendment to the financial liabilities that have been modified or replaced at (or after) the beginning of the annual reporting period, in which the entity first applies this amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply this amendment to the financial liabilities that have been modified or replaced at (or after) the beginning of the annual reporting period, in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued *Interest Rate Benchmark Reform – Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

These amendments provide for 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 the 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 Bank will apply the above amendment from January 2021.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Expected credit losses

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining expected credit losses on financial assets. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions (than are based primarily on historical data) regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a the lifetime expected credit loss basis;
- ▶ The Bank's internal credit grading model, which assigns PDs to the individual grades;
- ▶ Segmentation by special characteristics of the separate arrays of assets (groups) for which similar calculation models will be used for ECL calculation;
- ▶ Determination of associations between macroeconomic scenarios and economic inputs, such as the consumer price index, GDP growth, export/import growth, and the effect on PDs, EADs and LGDs;
- ▶ Identification of individual scenarios for significant assets (except those attributed to Stage 1) including the determination of probability of obtaining cash flows from different sources of origin for various options of the development of events (optimistic, basic, pessimistic);
- ▶ Segmentation of the industries most affected by COVID-19 pandemic and related quarantine measures, and the unscheduled recalculation of internal credit ratings of entities operating in such industries, as well as inclusion of actual results and forecasts on activities of respective entities to potential non-performing debts based on the analysis and their reclassification to Stage 2.

As at 31 December 2020, the total expected credit losses on financial assets and credit-related commitments amounted to UAH 52,764,057 thousand (31 December 2019: UAH 58,355,855 thousand). Details are provided in Notes 6, 9, 10, 11, 16, and 23.

Deferred income tax asset

The recognised deferred tax asset in the amount of UAH 1,175,372 thousand (31 December 2019: UAH 1,463,771 thousand) represents income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the business plan under which the profit is expected to be generated during the next three years.

It is expected that profitable activities in 2021-2023 will be maintained driven by the Bank's balance sheet structure transformation (reduction of the share Ukrainian state bonds and NBU deposit certificates with simultaneous increase in credit portfolio, settlement of external foreign currency liabilities on account of accumulated free liquidity, sale of the Bank's non-core assets), reduction of the share of non-performing assets of the Bank, increase in customer base and increase in risk-free income, optimization and limitation of operating costs increase. Taking into account planned future profits for 2021-2023 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information

For management purposes, the Bank recognises the following operating segments (business units):

Corporate banking	Business unit that focuses on corporate customers and on selling the products that require an individual approach and are mainly offered to corporate clients.
Small and medium-sized business	Business unit that focuses on servicing small and medium-sized businesses (including individual entrepreneurs) and selling products that are mainly in a standardised form (as per the tariffs approved and the standard procedures).
Retail banking	Business unit that focuses on servicing retail customers (except for individual entrepreneurs) on the full list of products, and selling to individuals (population) products that are mainly in a standardised form (as per the tariffs approved and the standard procedures) and generally do not require any individual approach to be applied.
Interbank and investments business	Business unit that focuses on providing services to participants in the financial markets (money, currency, stock, etc.) and on selling the products related to transactions in the financial markets.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- ▶ Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's top management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of top management;
- ▶ The result of revaluation of an open currency position (except for the portion of the open currency position allocated by the Bank for carrying out operations on purchase/sale/conversion of cash foreign currency and precious metals and conversion of non-cash foreign currency);
- ▶ The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During 2020, the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely: UAH 2,916,168 thousand (twelve months of 2019: UAH 3,312,464 thousand). Revenue from transactions with this external customer is reflected in the segment "Interbank and investments business".

Analysis of the Bank's revenue by banking products and services is presented in the consolidated statement of profit and losses as interest income and expenses and Note 24.

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2020:

	<i>Corporate banking</i>	<i>Small and medium-sized business</i>	<i>Retail banking</i>	<i>Interbank and investments business</i>	<i>Unallocated</i>	<i>Total</i>
External						
Interest income	5,355,128	327,019	45,719	4,304,879	–	10,032,745
Commission income	361,418	196,092	274,526	45,016	–	877,052
Other income	137,863	67,931	27,891	10,958	39,016	283,659
Net gains from derecognition of financial assets at amortised cost	412,897	157	67	–	–	413,121
Reversal of expenses for expected credit losses	–	–	11,481	–	–	11,481
Net gain from investment securities at fair value through profit or loss	–	–	–	–	3,450,489	3,450,489
Net gains from investment securities at fair value through other comprehensive income reclassified from other comprehensive income on settlement	–	–	–	51	–	51
Net gains from foreign currencies	179,942	70,365	43,774	273,291	–	567,372
Net gains from precious metals	1	4	–	–	5,014	5,019
Net gains from transactions with derivatives	–	–	–	107,108	–	107,108
Income from other segments	2,818,555	970,587	2,061,916	5,070,071	(10,921,129)	–
Total income	9,265,804	1,632,155	2,465,374	9,811,374	(7,426,610)	15,748,097
Interest expense	(2,011,336)	(614,754)	(1,355,902)	(4,680,255)	(1,210)	(8,663,457)
Commission expense	(82,744)	(47,248)	(158,654)	(36,599)	(3,496)	(328,741)
Net losses on modification of financial assets at amortised cost	(114,329)	(2,154)	(2,538)	–	–	(119,021)
Net losses on derecognition of financial liabilities at amortised cost	–	–	–	(384,396)	–	(384,396)
Expenses for expected credit losses	(4,189,151)	(92,218)	–	(54,573)	(41)	(4,335,983)
Expenses for expected credit losses on credit- related commitments	(72,378)	(1,017)	(226)	(8,459)	–	(82,080)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement	–	–	–	–	(34,164)	(34,164)
Net loss from foreign currencies	–	–	–	–	(4,637,799)	(4,637,799)
Net loss from precious metals	–	–	–	(418)	–	(418)
Net loss from transactions with derivatives	–	–	–	–	(9,828)	(9,828)
Personnel expenses	(446,980)	(318,358)	(324,543)	(91,709)	(315,142)	(1,496,732)
Depreciation and amortisation	(31,686)	(30,077)	(35,806)	(3,939)	(12,669)	(114,177)
Other operating expenses	(145,579)	(86,331)	(401,419)	(66,514)	(156,964)	(856,807)
Expenses from other segments	(5,737,685)	(258,746)	(52,692)	(4,324,919)	10,374,042	–
Segment results	(3,566,064)	181,252	133,594	159,593	(2,223,881)	(5,315,506)
Income tax expense						(275,861)
Loss for the year						(5,591,367)
Assets and liabilities as at 31 December 2020						
Segment assets	48,239,946	2,851,180	2,487,267	137,409,992		190,988,385
Unallocated assets					1,886,890	1,886,890
Total assets						192,875,275
Segment liabilities	66,996,102	14,286,357	29,330,010	70,398,190		181,010,659
Unallocated liabilities					1,515,720	1,515,720
Total liabilities						182,526,379
Other segment information						
Capital expenditure	(17,791)	(17,097)	(25,895)	(2,293)	(7,368)	(70,444)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2019:

	<i>Corporate banking</i>	<i>Small and medium-sized business</i>	<i>Retail banking</i>	<i>Interbank and investments business</i>	<i>Unallocated</i>	<i>Total</i>
External						
Interest income	7,198,960	405,015	52,077	3,912,752	–	11,568,804
Commission income	512,188	253,071	287,788	29,007	–	1,082,054
Other income	57,813	11,894	20,054	4,702	10,420	104,883
Net gains on derecognition of financial assets at amortised cost	146,146	–	–	–	–	146,146
Gains from modification of financial assets at amortised cost	–	2,671	–	–	–	2,671
Reversal of expenses for expected credit losses	–	25,756	16,255	–	356	42,367
Reversal of expenses for expected credit losses on credit-related commitments	16,230	2,170	444	14	–	18,858
Net gains from foreign currencies	201,423	87,328	17,421	233,019	3,972,961	4,512,152
Net gains from precious metals	–	–	170	–	488	658
Income from other segments	2,425,483	865,396	2,283,728	5,922,492	(11,497,099)	–
Total income	10,558,243	1,653,301	2,677,937	10,101,986	(7,512,874)	17,478,593
Interest expense	(1,800,738)	(656,181)	(1,637,588)	(5,698,496)	(133)	(9,793,136)
Commission expense	(206,000)	(65,325)	(152,876)	(5,695)	(370)	(430,266)
Net losses on modification of financial assets at amortised cost	(257,225)	–	(278)	–	–	(257,503)
Expenses for expected credit losses	(2,906,211)	–	–	(25,376)	–	(2,931,587)
Expenses for expected credit losses on credit- related commitments	–	–	–	–	(239)	(239)
Net loss on investment securities at fair value through profit or loss	–	–	–	–	(924,980)	(924,980)
Net losses on investment securities at fair value through other comprehensive income reclassified from statement of comprehensive income on settlement	–	–	–	–	(7,780)	(7,780)
Net loss from precious metals	–	–	–	(31)	–	(31)
Personnel expenses	(518,807)	(335,254)	(308,291)	(104,198)	(254,089)	(1,520,639)
Depreciation and amortisation	(35,622)	(30,286)	(32,675)	(3,664)	(8,811)	(111,058)
Other operating expenses	(277,292)	(90,746)	(367,644)	(25,149)	(105,965)	(866,796)
Expenses from other segments	(6,685,121)	(348,215)	(72,562)	(3,500,361)	10,606,259	–
Segment results	(2,128,773)	127,294	106,023	739,016	1,791,018	634,578
Income tax expense						(569,298)
Income for the year						65,280
Assets and liabilities as at 31 December 2019						
Segment assets	52,555,748	3,008,322	2,284,467	80,599,906		138,448,443
Unallocated assets					1,897,881	1,897,881
Total assets						140,346,324
Segment liabilities	29,291,998	10,936,883	26,184,320	64,521,949		130,935,150
Unallocated liabilities					493,949	493,949
Total liabilities						131,429,099
Other segment information						
Capital expenditure	(20,896)	(18,938)	(28,726)	(2,380)	(5,711)	(76,651)

The significant part of loss for twelve months of 2020 and 2019 from investment securities at fair value through profit and loss related to government bonds revaluation adjusted for exchange rate shift.

Geographical information

Most revenues and capital expenditure relate to Ukraine. The Bank has no significant revenue from other countries. The analysis of assets and liabilities by the geographical principle is provided in Note 26.

*(thousands of Ukrainian hryvnia, unless otherwise stated)***6. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current accounts with other credit institutions	21,388,135	10,383,491
Deposits certificates of the National Bank of Ukraine up to 90 days	12,003,359	5,008,938
Overnight deposits with other credit institutions	6,482,160	2,280,117
Term deposits with other credit institutions up to 90 days	5,937,862	10,682,215
Current account with the National Bank of Ukraine	2,484,114	3,744,605
Cash on hand	1,643,540	1,387,450
	<u>49,939,170</u>	<u>33,486,816</u>
Less: allowance for expected credit losses	(26,227)	(16,881)
Cash and cash equivalents	<u>49,912,943</u>	<u>33,469,935</u>

As at 31 December 2020, included in current accounts with other credit institutions is UAH 18,552,937 thousand placed on current accounts with five OECD banks (31 December 2019: UAH 8,942,731 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2020, overnight deposits in the amount of UAH 6,482,160 thousand were placed with two OECD banks under market interest rate (31 December 2019: UAH 2,280,117 thousand).

7. Changes in liabilities in financial activities

Changes in cash flows from financing activities in the statement of cash flows for 2019 and 2020 were as follows:

	<i>Borrowings from credit institutions</i>	<i>Eurobonds issued</i>	<i>Subordinated debt</i>	<i>Lease commitments</i>	<i>Total</i>
Carrying amount at 1 January 2019	22,706,497	42,541,905	3,584,690	—	68,833,092
Effect of IFRS 16 implementation	—	—	—	10,818	10,818
Additions	5,470,370	—	2,397,803	377	7,868,550
Repayments	(3,939,153)	(11,730,648)	—	(5,154)	(15,674,955)
Translation differences	(3,404,992)	(4,292,113)	(573,703)	—	(8,270,808)
Other	198,505	33,932	21,124	(35)	253,526
Carrying amount at 31 December 2019	<u>21,031,227</u>	<u>26,553,076</u>	<u>5,429,914</u>	<u>6,006</u>	<u>53,020,223</u>
Additions	6,088,340	—	—	—	6,088,340
Repayments	(7,355,522)	(12,442,092)	(1,838,315)	(5,242)	(21,641,171)
Translation differences	4,746,876	4,126,945	819,131	—	9,692,952
Other	60,921	299,223	(69,554)	6,527	297,117
Carrying amount at 31 December 2020	<u>24,571,842</u>	<u>18,537,152</u>	<u>4,341,176</u>	<u>7,291</u>	<u>47,457,461</u>

"Other" includes the effect of accrued but unpaid interest on borrowings from credit institutions, issued Eurobonds and subordinated debt. The Bank classifies the paid interest as cash flows from operating activities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Expenses for expected credit losses

The table below shows the ECL recorded in profit or loss:

<i>For 2020</i>	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Cash and cash equivalents	8,674	–	–	–	–	–	8,674
Amounts due from credit institutions	(2,666)	–	–	–	(42,856)	–	(45,522)
Loans to customers	417,059	119,001	1,085,124	451,235	1,539,090	655,872	4,267,381
Investment securities at fair value through other comprehensive income	18,919	–	17,272	–	–	–	36,191
Investment securities at amortised cost	54,705	–	–	–	–	–	54,705
Other financial assets	3,073	–	–	–	–	–	3,073
Total expenses for expected credit losses	499,764	119,001	1,102,396	451,235	1,496,234	655,872	4,324,502
<i>For 2019</i>	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Cash and cash equivalents	12,964	–	–	–	–	–	12,964
Amounts due from credit institutions	(9,931)	–	–	(6)	(5,322)	–	(15,259)
Loans to customers	(410,764)	(39,925)	51,299	92,701	999,291	2,176,512	2,869,114
Investment securities at fair value through other comprehensive income	17,274	–	–	–	–	–	17,274
Other financial assets	5,125	–	–	–	–	–	5,125
Total expenses / (reversal of expenses) for expected credit losses	(385,332)	(39,925)	51,299	92,695	993,969	2,176,512	2,889,218

Expenses for expected credit losses on POCI recognised in profit or loss included the adjustment of the gross carrying amount of POCI financial assets in the amount of UAH 151,640 thousand (2019: UAH 66,560 thousand).

The table below shows the ECL on credit-related commitments recorded in profit or loss.

<i>For 2020</i>	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Financial guarantees	(111)	(282)	192	(201)
Undrawn loan commitments	103,816	(3,717)	(21,452)	78,647
Letters of credit	3,603	–	–	3,603
Avals on promissory notes	31	–	–	31
	<u>107,339</u>	<u>(3,999)</u>	<u>(21,260)</u>	<u>82,080</u>

<i>For 2019</i>	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Financial guarantees	(358)	29	–	66	–	(263)
Undrawn loan commitments	(2,044)	(11)	(8,182)	(2,420)	(4,068)	(16,725)
Letters of credit	(1,612)	–	–	–	–	(1,612)
Avals on promissory notes	(19)	–	–	–	–	(19)
	<u>(4,033)</u>	<u>18</u>	<u>(8,182)</u>	<u>(2,354)</u>	<u>(4,068)</u>	<u>(18,619)</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans and deposits		
Ukrainian banks	781,906	791,494
OECD banks	207,279	173,642
CIS and other banks	54,217	23,595
	<u>1,043,402</u>	<u>988,731</u>
Amounts due from other credit institutions		
Current accounts with other credit institutions in precious metals	38,551	15,203
Other amounts due from credit institutions	74,466	74,928
	<u>1,156,419</u>	<u>1,078,862</u>
Less: allowance for impairment	<u>(786,259)</u>	<u>(822,690)</u>
Amounts due from credit institutions	<u>370,160</u>	<u>256,172</u>

As at 31 December 2020, loans and deposits due from credit institutions include UAH 261,516 thousand of security deposits placed mainly as security of the customers' letters of credit and guarantees (31 December 2019: UAH 197,237 thousand).

As of December 31, 2020, amounts due from credit institutions are accounted for at amortised cost, excluding current accounts in bank metals in the amount of UAH 38,539 thousand (31 December 2019: UAH 15,201 thousand) that are accounted for at fair value through profit or loss.

During 2020, the Bank effected a repayment of amounts due from credit institutions through pledged property amounting to UAH 13,846 thousand, including through possession of pledged property amounting to UAH 12,633 thousand which is included in "Non-current assets held for sale" and through the sale of pledged property amounting to UAH 1,213 thousand (31 December 2019: through the sale of pledged property amounting to UAH 5,322 thousand).

The following tables show the analysis of changes in the gross carrying amount and the corresponding ECL on amounts due from credit institutions:

	<i>Stage 1 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	260,715	74,390	743,757	1,078,862
New assets originated or purchased	215,294	–	–	215,294
Assets derecognised (repaid)	(207,846)	–	–	(207,846)
Change in carrying amount	3,501	–	(13,846)	(10,345)
Translation differences	72,680	76	7,698	80,454
Gross carrying amount at 31 December 2020	<u>344,344</u>	<u>74,466</u>	<u>737,609</u>	<u>1,156,419</u>
	<i>Stage 1 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2019	585,521	74,448	755,793	1,415,762
New assets originated or purchased	131,813	–	–	131,813
Assets derecognised (repaid)	(329,783)	(5)	–	(329,788)
Change in carrying amount	(68,357)	(1)	(5,322)	(73,680)
Translation differences	(58,479)	(52)	(6,714)	(65,245)
Gross carrying amount at 31 December 2019	<u>260,715</u>	<u>74,390</u>	<u>743,757</u>	<u>1,078,862</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

9. Amounts due from credit institutions (continued)

	<i>Stage 1 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2020	4,543	74,390	743,757	822,690
New assets originated or purchased	14,110	–	–	14,110
Assets derecognised (repaid)	(14,322)	–	–	(14,322)
Changes in allowance	(2,454)	–	(42,856)	(45,310)
Translation differences	1,317	76	7,698	9,091
Allowance at 31 December 2020	<u>3,194</u>	<u>74,466</u>	<u>708,599</u>	<u>786,259</u>
	<i>Stage 1 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2019	15,631	74,448	755,793	845,872
New assets originated or purchased	3,951	–	–	3,951
Assets derecognised (repaid)	(9,653)	(5)	–	(9,658)
Changes in allowance	(4,229)	(1)	(5,322)	(9,552)
Translation differences	(1,157)	(52)	(6,714)	(7,923)
Allowance at 31 December 2019	<u>4,543</u>	<u>74,390</u>	<u>743,757</u>	<u>822,690</u>

10. Loans to customers

Loans to customers comprise:

	<i>31 December 2020</i>	<i>31 December 2019 (restated)</i>	<i>1 January 2019 (restated)</i>
Commercial loans	93,140,279	103,076,012	134,121,659
Finance lease receivables	2,021,575	2,401,967	1,360,897
Overdrafts	817,906	890,961	1,457,972
Promissory notes	13,900	58,089	74,717
	<u>95,993,660</u>	<u>106,427,029</u>	<u>137,015,245</u>
Less: allowance for impairment	<u>(47,385,340)</u>	<u>(53,141,225)</u>	<u>(64,518,887)</u>
Loans to customers at amortised cost	<u>48,608,320</u>	<u>53,285,804</u>	<u>72,496,358</u>

Commercial loans

The following tables show the analysis of changes in the gross carrying amount and the corresponding allowances for commercial loans:

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	34,576,277	913,212	2,617,032	6,381,029	53,201,230	5,387,232	103,076,012
New assets originated or purchased	13,962,671	–	–	–	–	2,542,032	16,504,703
Assets derecognised (repaid)	(4,269,285)	(477,957)	(344,193)	(279,219)	(6,132,584)	–	(11,503,238)
Transfer to Stage 1	494,348	(494,348)	–	–	–	–	–
Transfer to Stage 2	(18,430,230)	3,757,596	15,239,778	(42,800)	(524,344)	–	–
Transfer to Stage 3	(5,812)	(727,386)	(3,180,732)	768,876	3,145,054	–	–
Adjustment of the carrying amount of POCI	–	–	–	–	–	151,640	151,640
Change in carrying amount	(13,838,455)	(711,027)	(822,693)	(220,609)	351,957	529,418	(14,711,409)
Loans written off	–	–	–	(3,965,415)	(12,969,892)	–	(16,935,307)
Translation differences	4,831,445	259,859	1,229,114	648,543	9,406,536	182,381	16,557,878
Gross carrying amount at 31 December 2020	<u>17,320,959</u>	<u>2,519,949</u>	<u>14,738,306</u>	<u>3,290,405</u>	<u>46,477,957</u>	<u>8,792,703</u>	<u>93,140,279</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Commercial loans (continued)

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2019 (restated)	51,764,580	568,180	2,371,484	6,549,920	70,708,750	2,158,745	134,121,659
New assets originated or purchased	8,927,500	–	–	–	–	3,136,473	12,063,973
Assets derecognised (repaid)	(2,434,051)	(76,512)	(317)	(82,200)	(14,272,616)	–	(16,865,696)
Transfer to Stage 1	73,959	(73,959)	–	–	–	–	–
Transfer to Stage 2	(3,009,652)	1,023,247	2,263,038	(297)	(276,336)	–	–
Transfer to Stage 3	(292,791)	(228,796)	(1,333,996)	138,918	1,716,665	–	–
Adjustment of the carrying amount of POCI	–	–	–	–	–	66,560	66,560
Change in carrying amount	(14,816,931)	(221,576)	(391,927)	292,160	3,297,329	189,607	(11,651,338)
Translation differences	(5,636,337)	(77,372)	(291,250)	(517,472)	(7,972,561)	(164,153)	(14,659,145)
Gross carrying amount at 31 December 2019 (restated)	<u>34,576,277</u>	<u>913,212</u>	<u>2,617,032</u>	<u>6,381,029</u>	<u>53,201,231</u>	<u>5,387,232</u>	<u>103,076,013</u>

All loans written off by the Bank during 2020 remain the subject to enforcement activity (2019: none).

Commercial loans

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Allowance at 1 January 2020	389,088	50,542	173,965	6,049,750	44,090,129	2,333,605	53,087,079
New assets originated or purchased	175,498	–	–	–	–	–	175,498
Assets derecognised (repaid)	(67,606)	(22,417)	(20,497)	(218,759)	(598,769)	–	(928,048)
Transfer to Stage 1	19,957	(19,957)	–	–	–	–	–
Transfer to Stage 2	(448,077)	145,722	344,325	(10,088)	(31,882)	–	–
Transfer to Stage 3	(1,383)	(54,647)	(517,287)	(219,341)	792,658	–	–
Transfer to POCI	–	–	–	(25,833)	(3,828,057)	–	(3,853,890)
Result from derecognition	–	–	–	(184,298)	(228,886)	–	(413,184)
Interest income adjustment	–	–	–	182,020	1,659,648	409,291	2,250,959
Written-off assets	–	–	–	(3,965,414)	(12,969,892)	–	(16,935,306)
Recoveries	–	–	–	8,249	98,471	–	106,720
Modifications in allowance	(27,655)	86,285	1,105,681	670,826	2,137,869	807,512	4,780,518
Modifications in macro-model inputs	295,367	55,802	–	–	–	–	351,169
Translation differences	66,428	18,326	76,577	613,258	7,889,477	5,589	8,669,655
Allowance at 31 December 2020	<u>401,617</u>	<u>259,656</u>	<u>1,162,764</u>	<u>2,900,370</u>	<u>39,010,766</u>	<u>3,555,997</u>	<u>47,291,170</u>

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>POCI</i>	<i>Total</i>
Allowance at 1 January 2019 (restated)	999,187	91,662	198,347	6,258,714	56,804,948	95,657	64,448,515
New assets originated or purchased	224,147	–	–	–	–	–	224,147
Assets derecognised (repaid)	(41,249)	(3,783)	(25)	(61,592)	(654,052)	–	(760,701)
Transfer to Stage 1	2,328	(2,328)	–	–	–	–	–
Transfer to Stage 2	(74,830)	39,087	57,217	(294)	(21,180)	–	–
Transfer to Stage 3	(40,244)	(30,839)	(104,626)	(86,041)	261,750	–	–
Transfer to POCI	–	–	–	–	(9,535,908)	–	(9,535,908)
Result from derecognition	–	–	–	–	(384,697)	–	(384,697)
Interest income adjustment	–	–	–	273,484	2,318,188	3,709	2,595,384
Recoveries	–	–	–	9,249	81,897	–	91,146
Changes in allowance	(582,707)	(33,824)	51,222	154,170	1,656,210	2,243,072	3,488,143
Translation differences	(97,544)	(9,433)	(28,170)	(497,940)	(6,437,027)	(8,833)	(7,078,947)
Allowance at 31 December 2019 (restated)	<u>389,088</u>	<u>50,542</u>	<u>173,965</u>	<u>6,049,750</u>	<u>44,090,129</u>	<u>2,333,605</u>	<u>53,087,079</u>

Undiscounted expected credit losses on initial recognition of POCI in 2020 amounted to UAH 4,131,343 thousand (2019: UAH 8,227,236 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Overdrafts

The following tables show the analysis of changes in the gross carrying amount and the corresponding allowance for overdrafts:

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	879,552	10,958	451	890,961
New assets originated or purchased	421,921	–	–	421,921
Assets derecognised (repaid)	(605,731)	(12,613)	(453)	(618,797)
Transfer to Stage 1	22,092	(22,092)	–	–
Transfer to Stage 2	(114,837)	114,837	–	–
Transfer to Stage 3	–	(1,403)	1,403	–
Change in carrying amount	176,115	(67,121)	(369)	108,625
Translation differences	15,196	–	–	15,196
Gross carrying amount at 31 December 2020	794,308	22,566	1,032	817,906

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2019	1,384,401	12,278	324	60,969	1,457,972
New assets originated or purchased	842,149	–	–	–	842,149
Assets derecognised (repaid)	(1,186,363)	(33,865)	(15)	(58,463)	(1,278,706)
Transfer to Stage 1	541	(541)	–	–	–
Transfer to Stage 2	(46,241)	46,241	–	–	–
Transfer to Stage 3	(676)	–	–	676	–
Change in carrying amount	(98,839)	(13,155)	142	(3,182)	(115,034)
Translation differences	(15,420)	–	–	–	(15,420)
Gross carrying amount at 31 December 2019	879,552	10,958	451	–	890,961

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Allowance at 1 January 2020	15,896	173	372	16,441
New assets originated or purchased	9,039	–	–	9,039
Assets derecognised (repaid)	(12,874)	(359)	(374)	(13,607)
Transfer to Stage 1	759	(759)	–	–
Transfer to Stage 2	(3,921)	3,921	–	–
Transfer to Stage 3	–	(1,025)	1,025	–
Changes in allowance	17,720	(163)	(458)	17,099
Translation differences	140	–	–	140
Allowance at 31 December 2020	26,759	1,788	565	29,112

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2019	31,442	458	249	2,817	34,966
New assets originated or purchased	19,867	–	–	–	19,867
Assets derecognised (repaid)	(24,887)	(2,175)	(12)	(4,959)	(32,033)
Transfer to Stage 1	4	(4)	–	–	–
Transfer to Stage 2	(2,037)	2,037	–	–	–
Transfer to Stage 3	(50)	–	–	50	–
Changes in allowance	(8,132)	(143)	135	2,092	(6,048)
Translation differences	(311)	–	–	–	(311)
Allowance at 31 December 2019	15,896	173	372	–	16,441

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Finance lease receivables

The following tables show an analysis of changes in gross carrying amount and corresponding ECL on finance lease receivables:

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	2,397,185	137	4,645	2,401,967
New assets originated or purchased	28,521	–	–	28,521
Repaid loans	(753,141)	–	–	(753,141)
Transfer to Stage 3	–	(65)	65	–
Change in carrying amount	344,310	(72)	(10)	344,228
Gross carrying amount at 31 December 2020	2,016,875	–	4,700	2,021,575

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2019	1,356,252	–	4,645	1,360,897
New assets originated or purchased	1,934,295	–	–	1,934,295
Assets derecognised (repaid)	(902,088)	–	–	(902,088)
Transfer to Stage 2	(177)	177	–	–
Change in carrying amount	8,903	(40)	–	8,863
Gross carrying amount at 31 December 2019	2,397,185	137	4,645	2,401,967

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2020	32,497	125	4,645	37,267
Assets derecognised (repaid)	(10,428)	–	–	(10,428)
Transfer to Stage 3	–	(65)	65	–
Changes in allowance	38,171	(60)	(10)	38,101
Allowance at 31 December 2020	60,240	–	4,700	64,940

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2019	29,798	–	4,645	34,443
New assets originated or purchased	5,588	–	–	5,588
Assets derecognised (repaid)	(2,677)	–	–	(2,677)
Transfer to Stage 2	(23)	23	–	–
Changes in allowance	(189)	102	–	(87)
Allowance at 31 December 2019	32,497	125	4,645	37,267

Promissory notes

The following tables show the analysis of changes in the gross carrying amount and the corresponding allowance for promissory notes:

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	58,089	–	58,089
New assets originated or purchased	81,940	–	81,940
Assets derecognised (repaid)	(124,922)	(5,675)	(130,597)
Transfer to Stage 2	(5,602)	5,602	–
Change in carrying amount	4,395	73	4,468
Gross carrying amount at 31 December 2020	13,900	–	13,900

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Promissory notes (continued)

	<i>Stage 1 Collective</i>
Gross carrying amount at 1 January 2019	74,717
New assets originated or purchased	225,893
Assets derecognised (repaid)	(252,058)
Change in carrying amount	9,537
Gross carrying amount at 31 December 2019	58,089

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Total</i>
Allowance at 1 January 2020	438	–	438
New assets originated or purchased	619	–	619
Assets derecognised (repaid)	(1,230)	(149)	(1,379)
Transfer to Stage 2	(147)	147	–
Changes in allowance	438	2	440
Allowance at 31 December 2020	118	–	118

	<i>Stage 1 Collective</i>
Allowance at 1 January 2019	963
New assets originated or purchased	2,458
Assets derecognised (repaid)	(2,678)
Changes in allowance	(305)
Allowance at 31 December 2019	438

Modified loans

The Bank derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financial instrument, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in derecognition, then, based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Due to a negative impact of COVID-19 quarantine restrictions, the Bank uses certain measures designed to support the Bank's clients affected by the pandemic, including considers possible debt restructuring, in particular: extending the due dates for principal and/or accrued interest payment. Now, the Bank is using the instruments of short-term restructuring under the conditions that do not result in substantial modification of assets.

The table below includes the Stage 2 and Stage 3 assets modified during the period, with the modification gain/(loss):

	<i>2020</i>	<i>2019</i>
Loans to customers modified during the period		
Amortised cost before modification	14,612,044	4,371,228
Net modification loss	(119,021)	(254,832)

*(thousands of Ukrainian hryvnia, unless otherwise stated)***10. Loans to customers (continued)****Impact of the COVID-19 pandemic**

The Ukrainian Government and the National Bank of Ukraine are taking measures to address the economic recession caused by COVID-19, including by introducing special lending schemes. In particular, in 2020, amendments were introduced to the program of financial state support for micro- and small businesses "Affordable Loans 5-7-9%" (the "Affordable Loans at 5-7-9%" state program), which include the provision of the government financial support in the form of partial compensation of interest rates for loans by the Entrepreneurship Development Fund ("Fund") and in the form of guarantees issued by the Fund, to prevent the outbreak and proliferation and to localize and eliminate the spreads of epidemics and pandemics of acute respiratory syndrome COVID-19 caused by severe acute respiratory syndrome coronavirus 2 – SARS-CoV-2, and to prevent and overcome their effects; refinancing of the existing debt with Ukrainian banks according to the scheme mentioned).

As at the reporting date, the Bank has 74 loan agreements under the "Affordable Loans at 5-7-9%" state program to finance measures to prevent the outbreak and proliferation and to localize and eliminate the spreads of epidemics and pandemics of acute respiratory syndrome COVID-19 caused by severe acute respiratory syndrome coronavirus 2 – SARS-CoV-2, and to prevent and overcome their effects (including the refinancing of existing debt with other Ukrainian banks). As at the reporting date, the gross carrying amount of these loans is UAH 234,097 thousand, the amount of allowance is UAH 2,921 thousand.

In the context of COVID-19 pandemic, the Bank:

- ▶ Updated the model of macroeconomic indicators impact on the probability of debtors' default taking into account updated forecast information on their values for the next 3 years (according to the forecasts of the NBU and the World Bank), as well as actual internal rating class and statistics on the main macroeconomic indicators of Ukraine. The Bank has presented the applicable revised estimates, which rely on the information available to the Bank as at 1 January 2021, within the Bank's ECL assessment, which resulted in the increase in expenses for expected credit losses by UAH 411,217 thousand;
- ▶ Made a list of industries most affected by the restrictions and economic downturn caused by COVID-19 (air transportation and airports; transport; tourist services; commercial real estate (shopping malls and business centers), service industry: eating and entertainment establishments; hotel business; car trading; construction industry), and for debtors attributed to such industries an unscheduled review of the internal rating and recalculation of the probability of default were carried out. Such revised estimates led to an increase in expenses for expected credit losses by UAH 17,327 thousand. Also, the Bank reviewed the expectations of cash flows from the Bank's individually impaired assets based on the current situation with each individual debtor, forecasts for its further activities and the Bank's plans to work with it. At the same time, given that COVID-19 was not the only factor impacting such a revision, the impact of the total increase in expenses for expected credit losses on the relevant customers is not disclosed;
- ▶ Each application for restructuring the debts associated with COVID-19 was individually considered, and following the results of such consideration both a decision on consent to restructuring was made and a classification (attribution to an appropriate stage) was revised, as well as an estimate of expected credit losses was specified. This resulted in an increase in expenses for expected credit losses by UAH 189,034 thousand.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For securities lending and reverse repurchase transactions – cash or securities;
- ▶ For commercial lending – charges over real estate properties, inventory and trade receivables;
- ▶ For retail lending – mortgages over residential properties and vehicles.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2020, UAH 397,135 thousand of customer deposits are pledged as collateral for loans to customers (31 December 2019: UAH 962,789 thousand) (Note 19).

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The analysis of collateral value for credit-impaired assets (stage 3) taken in to account by the Bank when assessing the impairment of assets is provided in Note 26.

During 2020, the Bank effected the repayment loans to customers through pledged property of amounting to UAH 716,669 thousand, including through possession of pledged property amounting to UAH 10,719 thousand, which is included in "Non-current assets held for sale" and "Investment property" and through the sale of pledged property amounting to UAH 705,950 thousand (31 December 2019: through the sale of pledged property amounting to UAH 590,852 thousand).

Concentration of loans to customers

As at 31 December 2020, the Bank has a concentration of loans represented by UAH 46,228,321 thousand due from ten largest borrowers (47.47% of gross loan portfolio) (31 December 2019: UAH 41,752,218 thousand, or 38.11%). The allowance of UAH 30,303,992 thousand has been recognised against these loans (31 December 2019: UAH 26,081,588 thousand).

Loans have been extended to the following types of customers:

	31 December 2020	31 December 2019
Legal entities	76,673,788	86,716,582
State entities	16,755,513	17,746,303
Individuals	2,164,120	1,834,507
Municipal and utility entities	400,239	129,637
	<u>95,993,660</u>	<u>106,427,029</u>

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2020	%	31 December 2019	%
Power engineering	14,519,027	15.1	12,201,065	11.5
Agriculture and food industry	13,790,581	14.4	16,393,882	15.4
Chemical industry	11,426,786	11.9	12,258,067	11.5
Trade	8,406,102	8.8	11,611,061	10.9
Real estate	9,159,549	9.5	8,963,788	8.4
Mechanical engineering	8,115,360	8.5	8,344,299	7.8
Metallurgy	8,140,737	8.5	7,965,573	7.5
Extractive industry	4,910,270	5.1	4,476,267	4.2
Hotels and restaurants	4,369,451	4.6	3,477,609	3.3
Transport and communications	4,046,174	4.2	4,596,537	4.3
Individuals	2,164,120	2.3	1,834,507	1.7
Construction	1,925,260	2.0	1,970,829	1.9
Road construction	1,281,164	1.3	–	–
Production of rubber and plastic goods	992,263	1.0	2,673,862	2.5
Production of construction materials	855,803	0.9	4,469,475	4.2
Financial activity	432,265	0.5	333,477	0.3
Light industry	353,805	0.4	376,550	0.4
Pulp and paper industry	314,222	0.3	1,585,170	1.5
Other processing activities	298,181	0.3	427,265	0.4
Wood processing	236,871	0.2	392,156	0.4
Other	255,669	0.2	2,075,590	1.9
Total	<u>95,993,660</u>	<u>100</u>	<u>106,427,029</u>	<u>100</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

Corporate lending portfolio includes finance lease receivables. They may be analysed as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Gross investment in finance leases, receivable:		
Within 1 year	784,247	855,135
From 1 to 5 years	2,178,613	2,894,108
	<u>2,962,860</u>	<u>3,749,243</u>
Unearned future finance income on finance leases	(941,285)	(1,347,276)
Net investment in finance leases	<u>2,021,575</u>	<u>2,401,967</u>
	<i>31 December 2020</i>	<i>31 December 2019</i>
Net investment in finance leases, receivable:		
Within 1 year	447,962	444,019
From 1 to 5 years	1,573,613	1,957,948
Net investment in finance leases	<u>2,021,575</u>	<u>2,401,967</u>

11. Investment securities

Investment securities at fair value through profit or loss

As at 31 December 2020, investment securities at FVPL with the carrying value of UAH 29,008,521 thousand (31 December 2019: UAH 25,731,949 thousand) are represented by Ukrainian state bonds. The conditions of issue of those securities provide for indexation of the nominal value by maturity according to the changes in the average interbank exchange rate of Hryvnia to US Dollar per month prior to the date of issue and per month prior to the maturity date. Coupon yield is not subject to indexation.

As at 31 December 2020, Ukrainian state bonds with carrying amount of UAH 15,902,090 thousand were pledged as collateral on loans received from the National Bank of Ukraine (Note 17).

Investment securities at fair value through other comprehensive income

	<i>31 December 2020</i>	<i>31 December 2019</i>
Ukrainian state bonds	13,877,469	22,254,733
Corporate bonds	341,329	361,226
Municipal bonds	302,122	–
Corporate shares	22,603	17,940
Investment securities at fair value through other comprehensive income	<u>14,543,523</u>	<u>22,633,899</u>

As at 31 December 2020, Ukrainian state bonds with carrying amount of UAH 8,094,665 thousand were pledged as collateral on loans received from the National Bank of Ukraine (31 December 2019: none) (Note 17).

As at 31 December 2020, Ukrainian state bonds with carrying amount of UAH 94,566 thousand were pledged as collateral on loans received from credit institutions (31 December 2019: none) (Note 18).

As at 31 December 2020, Ukrainian state bonds with carrying amount of UAH 334,849 thousand were used to form a guarantee fund on interest rate swaps (31 December 2019: none) (Note 17).

The Bank at its own discretion has designated some of its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Such investments primarily include mandatory shares in exchanges and clearing houses, investments arising when the Bank received equity shares in exchange for debt settlement, and strategic investments in other banks.

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Investment securities (continued)

Investment securities at fair value through other comprehensive income (continued)

The following tables show the analysis of changes in the gross carrying amount and the corresponding ECL on investment securities at fair value through other comprehensive income:

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	22,656,710	–	4,218,021	26,874,731
New assets originated or purchased	4,768,169	–	–	4,768,169
Repaid assets	(13,987,180)	–	–	(13,987,180)
Change in carrying amount	6,924	16,455	–	23,379
Transfer to Stage 2	(347,050)	347,050	–	–
Sold assets	(229,829)	–	–	(229,829)
Translation differences	1,372,421	–	–	1,372,421
Gross carrying amount at 31 December 2020	14,240,165	363,505	4,218,021	18,821,691

	<i>Stage 1 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Gross carrying amount at 1 January 2019	35,794,632	4,218,021	40,012,653
New assets originated or purchased	12,917,468	–	12,917,468
Repaid assets	(25,081,500)	–	(25,081,500)
Change in carrying amount	1,615,588	–	1,615,588
Translation differences	(2,589,478)	–	(2,589,478)
Gross carrying amount at 31 December 2019	22,656,710	4,218,021	26,874,731

	<i>Stage 1 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2020	22,811	–	4,218,021	4,240,832
New assets originated or purchased	9,415	–	–	9,415
Repaid assets	(11,644)	–	–	(11,644)
Changes in allowance	21,148	17,272	–	38,420
Transfer to Stage 2	(4,903)	4,903	–	–
Sold assets	(106)	–	–	(106)
Translation differences	1,251	–	–	1,251
Allowance at 31 December 2020	37,972	22,175	4,218,021	4,278,168

	<i>Stage 1 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Allowance at 1 January 2019	5,537	4,218,021	4,223,558
New assets originated or purchased	20,779	–	20,779
Changes in allowance	(3,505)	–	(3,505)
Allowance at 31 December 2019	22,811	4,218,021	4,240,832

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Investment securities (continued)

Investment securities at amortised cost

	<i>31 December 2020</i>
Ukrainian state bonds	25,803,072
Corporate bonds	19,427,009
	<u>45,230,081</u>
Less: allowance for expected credit losses	(55,471)
Investment securities at amortised cost	<u><u>45,174,610</u></u>

As at 31 December 2020, Ukrainian state bonds with carrying amount of UAH 4,083,722 thousand were pledged as collateral on loans received from the National Bank of Ukraine (31 December 2019: none) (Note 17).

As at 31 December 2020, corporate bonds with carrying amount of UAH 83,551 thousand were pledged as collateral on loans received from the National Bank of Ukraine (31 December 2019: none) (Note 17).

12. Investment property

The movements of investment property are as follows:

	<i>2020</i>	<i>2019</i>
Investment property as at 1 January	1,035,586	1,153,243
Net gain/(loss) from fair value remeasurement	107,012	(117,657)
Transfer from non-current assets held for sale	853	–
Investment property as at 31 December	<u><u>1,143,451</u></u>	<u><u>1,035,586</u></u>

In 2020, the Bank revalued its investment property. The valuation was performed by independent appraiser having appropriate professional qualifications and years of experience in valuation of properties of similar category and with similar location. The basic valuation approaches applied were the comparative approach and a combination of comparative and income approaches.

The Bank leased out a part of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Within 1 year	<u>16,211</u>	<u>26,072</u>
Future minimum receivables under non-cancellable operating lease	<u><u>16,211</u></u>	<u><u>26,072</u></u>

In 2020, the Bank recognised rental income of UAH 22,202 thousand (2019: UAH 30,124 thousand) included in other income in the consolidated statement of profit and loss.

During 2020, direct operating expenses related to investment property generating rental income amounted to 5,717 thousand. (2019: UAH 8,266 thousand), direct operating expenses related to investment property not generating rental income amounted to UAH 23,266 thousand (2019: UAH 20,593 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Property and equipment

The movements of property and equipment were as follows:

	<i>Buildings</i>	<i>Right-of-use assets Buildings/ Premises</i>	<i>Leasehold improve- ments</i>	<i>Computers and equipment</i>	<i>Furniture, fittings and other assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost or revalued amount								
At 31 December 2019	1,448,606	11,728	5,040	568,694	260,808	20,356	54,069	2,369,301
Additions	–	55	–	47,999	3,566	–	6,728	58,348
Disposals	–	–	(6)	(3,056)	(1,019)	–	(51)	(4,132)
Modification	–	5,906	–	–	–	–	–	5,906
Deduction of accumulated depreciation on re-evaluation	(75,688)	–	–	–	–	–	–	(75,688)
Revaluation of property and equipment	377,332	–	–	–	–	–	(178)	377,154
Transfers	5,010	–	–	–	–	–	(5,010)	–
At 31 December 2020	<u>1,755,260</u>	<u>17,689</u>	<u>5,034</u>	<u>613,637</u>	<u>263,355</u>	<u>20,356</u>	<u>55,558</u>	<u>2,730,889</u>
Accumulated depreciation								
At 31 December 2019	(52,490)	(5,864)	(4,738)	(460,172)	(209,408)	(20,168)	–	(752,840)
Charge for the year	(26,275)	(5,311)	(158)	(47,362)	(11,544)	–	–	(90,650)
Write-off of accumulated depreciation on re-evaluation	75,688	–	–	–	–	–	–	75,688
Disposals	–	591	6	3,056	1,019	–	–	4,672
At 31 December 2020	<u>(3,077)</u>	<u>(10,584)</u>	<u>(4,890)</u>	<u>(504,478)</u>	<u>(219,933)</u>	<u>(20,168)</u>	<u>–</u>	<u>(763,130)</u>
Net book value								
At 31 December 2019	<u>1,396,116</u>	<u>5,864</u>	<u>302</u>	<u>108,522</u>	<u>51,400</u>	<u>188</u>	<u>54,069</u>	<u>1,616,461</u>
At 31 December 2020	<u>1,752,183</u>	<u>7,105</u>	<u>144</u>	<u>109,159</u>	<u>43,422</u>	<u>188</u>	<u>55,558</u>	<u>1,967,759</u>

	<i>Buildings</i>	<i>Right-of-use assets Buildings/ Premises</i>	<i>Leasehold improve- ments</i>	<i>Computers and equipment</i>	<i>Furniture, fittings and other assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost or revalued amount								
At 1 January 2019	1,442,547	–	5,734	541,777	251,550	20,356	50,251	2,312,215
Effect of adoption of IFRS 16 at 1 January 2019	–	11,316	–	–	–	–	–	11,316
Additions	–	412	–	31,276	10,260	1,568,123	10,434	1,620,505
Disposals	–	–	(724)	(4,359)	(1,002)	(1,568,123)	(527)	(1,574,735)
Transfers	6,059	–	30	–	–	–	(6,089)	–
At 31 December 2019	<u>1,448,606</u>	<u>11,728</u>	<u>5,040</u>	<u>568,694</u>	<u>260,808</u>	<u>20,356</u>	<u>54,069</u>	<u>2,369,301</u>
Accumulated depreciation								
At 1 January 2019	(27,294)	–	(5,074)	(416,277)	(197,293)	(20,168)	–	(666,106)
Charge for the year	(25,196)	(5,828)	(375)	(48,220)	(13,151)	–	–	(92,770)
Modification	–	(36)	–	–	–	–	–	(36)
Disposals	–	–	711	4,325	1,036	–	–	6,072
At 31 December 2019	<u>(52,490)</u>	<u>(5,864)</u>	<u>(4,738)</u>	<u>(460,172)</u>	<u>(209,408)</u>	<u>(20,168)</u>	<u>–</u>	<u>(752,840)</u>
Net book value								
At 1 January 2019	<u>1,415,253</u>	<u>11,316</u>	<u>660</u>	<u>125,500</u>	<u>54,257</u>	<u>188</u>	<u>50,251</u>	<u>1,657,425</u>
At 31 December 2019	<u>1,396,116</u>	<u>5,864</u>	<u>302</u>	<u>108,522</u>	<u>51,400</u>	<u>188</u>	<u>54,069</u>	<u>1,616,461</u>

During 2020, the Bank recognised UAH 12,232 thousand of rent expense on short-term leases and leases of low-value assets (31 December 2019: UAH 14,302 thousand).

As at 31 December 2020, property and equipment included assets (computers and furniture) with the cost of UAH 561,002 thousand which were fully depreciated (31 December 2019: UAH 514,512 thousand). These assets are still used by the Bank.

*(thousands of Ukrainian hryvnia, unless otherwise stated)***13. Property and equipment (continued)**

As at 31 December 2020, the Bank had capital commitments for the acquisition of property and equipment of UAH 2,380 thousand (31 December 2019: UAH 4,689 thousand).

As at 1 March and 1 August of each year, the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The Bank analyses the calculated deviations for the significance of the impact on its financial statements and carries out a revaluation in case of significant deviation.

In addition, regardless of the results of buildings fair value testing, the Bank carries out a valuation no less than once every three years. The latest valuation was performed as at 1 December 2020 by an independent appraiser and fair value was determined using comparative and income approaches based on market information.

Based on the results of buildings revaluation in 2020, the Bank recognised gain from the increase in fair value in the amount of UAH 34,676 thousand in the statement of profit and loss and in the amount of UAH 342,478 thousand in the statement of other comprehensive income.

If the buildings were reported at cost as at 31 December 2020, the carrying amount would be as follows:

	<i>31 December 2020 (revalued)</i>	<i>31 December 2020 (at cost)</i>	<i>31 December 2019 (revalued)</i>	<i>31 December 2019 (at cost)</i>
Cost	1,755,260	1,057,134	1,448,606	1,052,124
Accumulated depreciation	(3,077)	(213,457)	(52,490)	(201,402)
Net book value	<u>1,752,183</u>	<u>843,677</u>	<u>1,396,116</u>	<u>850,722</u>

14. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software and licenses</i>
Cost	
At 31 December 2019	152,021
Additions	16,338
Disposals	(9)
At 31 December 2020	<u>168,350</u>
Accumulated depreciation	
At 31 December 2019	(92,848)
Charge for the year	(23,527)
Disposals	9
At 31 December 2020	<u>(116,366)</u>
Net book value	
At 31 December 2019	<u>59,173</u>
At 31 December 2020	<u>51,984</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

14. Intangible assets (continued)

	<i>Computer software and licenses</i>
Cost	
At 1 January 2019	128,831
Additions	23,195
Disposals	(5)
At 31 December 2019	152,021
Accumulated depreciation	
At 1 January 2019	(74,565)
Charge for the year	(18,288)
Disposals	5
At 31 December 2019	(92,848)
Net book value	
At 1 January 2019	54,266
At 31 December 2019	59,173

As at 31 December 2020, intangible assets in the value of UAH 63,075 thousand were fully amortised (31 December 2019: UAH 52,362 thousand). These assets are still used by the Bank.

As at 31 December 2020, the Bank had capital commitments for the acquisition of intangible assets of UAH 17,936 thousand (31 December 2019: UAH 24,127 thousand).

15. Income tax

The income tax charge comprises:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current tax charge	–	(48)
Changes in deferred income tax	(275,861)	(569,250)
Income tax expense	(275,861)	(569,298)

As at 31 December 2020, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2019: 18%).

Income tax assets and liabilities consist of the following:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Tax assets	250,331	246,882
Deferred income tax asset	1,175,372	1,463,771
Tax assets	1,425,703	1,710,653

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	<i>2020</i>	<i>2019</i>
Profit before tax	(5,315,506)	634,578
Statutory tax rate	18%	18%
Income tax charge at the statutory rate	956,791	(114,224)
Changes in unrecognised deferred tax asset	(1,230,069)	(471,200)
Non-deductible expenditures	(2,583)	(3,410)
Changes in deferred tax asset not recognised in the consolidated statement of financial position	–	19,536
Income tax expense	(275,861)	(569,298)

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Income taxes (continued)

Deferred tax assets and liabilities include:

	Origination and reversal of temporary differences				Origination and reversal of temporary differences			
		In the consolidated statement of profit and loss	In the consolidated statement of comprehensive income		In the consolidated statement of profit and loss	In the consolidated statement of comprehensive income		
	1 January 2019			31 December 2019			31 December 2020	
Tax effect of deductible temporary differences								
Allowances for impairment of assets and liabilities	1,526,520	(1,487,899)	—	38,621	14,946	—	53,567	
Valuation of financial instruments	267,126	—	(210,136)	56,990	—	23,007	79,997	
Unused tax losses carried forward	1,748,575	1,389,928	—	3,138,503	994,131	—	4,132,634	
Deferred income tax asset	3,542,221	(97,971)	(210,136)	3,234,114	1,009,077	23,007	4,266,198	
Unrecognised deferred tax asset	(1,506,021)	(471,200)	210,136	(1,767,085)	(1,230,069)	(23,007)	(3,020,161)	
Recognised deferred tax asset	2,036,200	(569,171)	—	1,467,029	(220,992)	—	1,246,037	
Tax effect of deductible temporary differences								
Property and equipment and intangible assets	(3,179)	(79)	—	(3,258)	(54,869)	(12,538)	(70,665)	
Deferred tax liabilities	(3,179)	(79)	—	(3,258)	(54,869)	(12,538)	(70,665)	
Net deferred tax asset	2,033,021	(569,250)	—	1,463,771	(275,861)	(12,538)	1,175,372	

The information on the professional judgment applied by the management for the recognition of deferred tax assets is provided in Note 4.

16. Other assets and liabilities

Other assets comprise:

	31 December 2020	31 December 2019 (restated)	1 January 2019 (restated)
Other financial assets			
Transit accounts on operations with payment cards	118,437	182,067	169,002
Derivative financial assets	108,231	—	—
Accounts receivable on operations with customers	79,485	56,664	64,987
Other accrued income	33,707	29,997	61,029
Accrued service fee on guarantees issued	6,307	15,936	18,804
Other	125	105	122
	346,292	284,769	313,944
Less: allowance for expected credit losses	(97,061)	(85,165)	(86,643)
Other financial assets	249,231	199,604	227,301
Other non-financial assets			
Other tax assets, except those related to income tax	155,535	149,818	463,496
Advance payments	137,927	111,311	1,688,710
Precious metals	89,616	70,919	83,634
Repossession pledged property	36,701	39,321	—
Cash, which availability is not confirmed	35,883	30,491	32,743
Inventories	27,090	35,597	34,855
Other	9,086	2,067	3,017
	491,838	439,524	2,306,455
Less: allowance for impairment	(95,009)	(92,436)	(82,233)
Other assets	396,829	347,088	2,224,222
Total other assets	646,060	546,692	2,451,523

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities (continued)

Other liabilities comprise:

	<i>31 December 2020</i>	<i>31 December 2019 (restated)</i>	<i>1 January 2019 (restated)</i>
Other financial liabilities			
Transit accounts on operations with customers	1,410,832	536,782	338,744
Transit accounts on operations with payment cards	41,592	53,121	29,771
Liabilities on guarantees issued	19,492	4,964	8,756
Lease commitments	7,291	6,006	–
Accrued expenses	8,959	5,655	6,481
Derivative financial liabilities	1,123	–	–
Other financial liabilities	<u>1,489,289</u>	<u>606,528</u>	<u>383,752</u>
Other liabilities			
Accrued unused vacations	102,573	125,469	111,952
Payables to the Individual Deposit Guarantee Fund	70,364	63,411	64,542
Deferred income	36,976	34,702	27,329
Accrued salary	31,981	60,427	71,727
Payables on taxes and mandatory contributions, except for income tax	31,832	35,229	38,040
Payables on the Bank's business activities	36,442	11,416	22,627
Provision for performance guarantees	3,455	244	829
Other	704	11,949	10,755
Other liabilities	<u>314,327</u>	<u>342,847</u>	<u>347,801</u>
Total other liabilities	<u>1,803,616</u>	<u>949,375</u>	<u>731,553</u>

The following table shows the analysis of changes in the gross carrying amount and the corresponding ECL on other financial assets (except for transit accounts on operations with payment cards and derivative financial assets):

	<i>Stage 1 Collective</i>
Gross carrying amount at 1 January 2020	102,702
New assets originated or purchased	149,802
Assets derecognised (repaid)	(144,522)
Change in carrying amount	2,739
Written-off assets	(381)
Translation differences	9,284
Gross carrying amount at 31 December 2020	<u>119,624</u>
	<i>Stage 1 Collective</i>
Gross carrying amount at 1 January 2019 (restated)	144,942
New assets originated or purchased	96,003
Assets derecognised (repaid)	(107,918)
Change in carrying amount	(23,664)
Written-off assets	(162)
Translation differences	(6,499)
Gross carrying amount at 31 December 2019 (restated)	<u>102,702</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Other assets and liabilities (continued)

	<i>Stage 1 Collective</i>
Allowance at 1 January 2020	85,165
New assets originated or purchased	29,052
Assets derecognised (repaid)	(27,433)
Changes in allowance	1,454
Written-off assets	(381)
Translation differences	9,204
Allowance at 31 December 2020	97,061

	<i>Stage 1 Collective</i>
Allowance at 1 January 2019 (restated)	86,643
New assets originated or purchased	11,038
Assets derecognised (repaid)	(14,389)
Changes in allowance	8,476
Written-off assets	(162)
Translation differences	(6,441)
Allowance at 31 December 2019 (restated)	85,165

The following tables show the analysis of impairment losses on other non-financial assets:

Allowance at 1 January 2020	92,436
Reversal	(2,819)
Translation differences	5,392
Allowance at 31 December 2020	95,009
Allowance at 1 January 2019	82,233
Charge	14,449
Translation differences	(4,246)
Allowance at 31 December 2019	92,436

Derivative financial instruments

Interest rate swap

The Bank enters into agreements with the NBU for the exchange of interest payments which are calculated at different rates, but with the consideration of one notional amount during the term of the agreement. The notional amount of loans (granted and borrowed) under the interest rate swap is used exclusively for interest calculations and is not transferred between the parties to the agreement.

As at 31 December 2020, the notional amounts are:

	<i>Notional amount</i>		<i>Fair value</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Interest rate swap	6,762,406	60,000	108,231	1,123

(thousands of Ukrainian hryvnia, unless otherwise stated)

17. Amounts due to the National Bank of Ukraine

As at 31 June 2020, amounts due to the National Bank of Ukraine on refinancing loans include the following (31 December 2019: none):

<i>Date of agreement</i>	<i>Maturity date</i>	<i>Interest rate type</i>	<i>Effective interest rate</i>	<i>Carrying amount</i>
14 August 2020	17 July 2023	Floating (NBU discount rate + margin)	6.1682%	2,897,996
11 September 2020	30 August 2024	Floating (NBU discount rate + margin)	6.1676%	514,998
9 October 2020	3 October 2025	Floating (NBU discount rate + margin)	6.1676%	337,989
13 November 2020	7 November 2025	Floating (NBU discount rate + margin)	6.1676%	10,757,788
4 December 2020	26 February 2021	Floating (NBU discount rate + margin)	6.1688%	500,000
11 December 2020	5 December 2025	Floating (NBU discount rate + margin)	6.1676%	999,997
Amounts due to the NBU on loans				<u>16,008,768</u>

As at 31 December 2020, the margin on NBU refinancing loans is 0.00%.

Amounts due to the NBU on all refinancing loans are secured by investment securities – Ukrainian state bonds with carrying amount of UAH 23,996,755 thousand (Note 11).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans from international financial organisations	24,571,842	20,943,326
Current accounts	942,205	708,317
Loans and deposits from other banks	604,906	174,119
Other amounts due to credit institutions	75	–
Amounts due to credit institutions	<u>26,119,028</u>	<u>21,825,762</u>

As at 31 December 2020, current accounts include UAH 525,847 thousand placed by five Ukrainian banks (31 December 2019: UAH 328,152 thousand placed by five Ukrainian banks). The placements have been made under normal banking terms and conditions.

As at 31 December 2020, overall amount due to credit institutions includes UAH 1,538,542 thousand received from Ukrainian banks (31 December 2019: UAH 791,560 thousand).

As at 31 December 2020, loans and deposits received from other banks and loans from international financial organisations include UAH 881,260 thousand under the trade financing agreements (31 December 2019: UAH 696,952 thousand under the trade financing agreements and UAH 87,901 thousand under agreement with a foreign creditor for the purpose of funds attraction for guarantee and insurance coverage of export credit agencies received from OECD bank). These loans are denominated in EUR (31 December 2019: in EUR).

*(thousands of Ukrainian hryvnia, unless otherwise stated)***18. Amount due to credit institutions (continued)**

As at 31 December 2020, loans from international financial organisations include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development with a carrying amount of UAH 5,153,004 thousand (31 December 2019: UAH 4,622,119 thousand). The loans are denominated in US dollars, bear interest rates LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 0.74% and 0.95% p.a., respectively. Loans mature in 2026 and 2041.

Loans from international financial institutions include the loan from the IBRD under the Project on Energy Efficiency in the amount of UAH 4,236,218 thousand (31 December 2019: UAH 3,721,741 thousand). The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread EIB, which is reviewed twice a year, with the current interest rate: 0.95% p.a. The loan matures in 2040.

Loans from international financial institutions include the loan from the IBRD under the Project on Access to Long Term Finance in the amount of UAH 2,056,304 thousand. (31 December 2019: UAH 1,336,258 thousand). The total amount of these loans under the loan agreements is USD 150,000 thousand. The loan is denominated in US dollars, bears interest rate LIBOR(6m)USD + spread IBRD, which is reviewed twice a year, with the current interest rate: 1.28% p.a. The loan matures in 2052.

As at 31 December 2020, loans from international financial institutions include loans from the European Investment Bank ("EIB") under the loan for SMEs and Mid-Caps and loan under the Deep and Comprehensive Free Trade Area (DCFTA) Initiative between EU and Ukraine totalling UAH 3,543,793 thousand (31 December 2019: UAH 3,961,721 thousand). The total amount of these loans under the loan agreements is EUR 380,000 thousand. Loan tranches are denominated in USD and EUR and mature in 2023 and 2025, bear fixed and floating interest rate for each tranche: LIBOR(6m)USD + spread EIB, floating interest rate are reviewed twice a year, and as at the current date the interest rates are: 5.027%, 1.431%, 3.74525% and 3.78375% p.a., respectively.

Loans from international financial institutions also include loans from the European Bank of Reconstruction and Development ("EBRD") under the Program of loans to SMEs aimed at supporting the DCFTA with Ukraine for the amount of UAH 881,260 thousand (31 December 2019: UAH 670,235 thousand). The amount of loan under the Loan Agreement is equivalent to USD 25,000 thousand. The loan is denominated USD, loan tranches are accounted for by the Bank in UAH at the fixed interest rate of 17.35% and 15.05% p.a., and mature 2021 and 2022, respectively.

Loans from international financial institutions include A/B loan from the European Bank for Reconstruction and Development (EBRD) under the loan agreement of 16 August 2019 in the amount of EUR 80,000 thousand. As at 31 December 2020, the carrying amount of the loan was UAH 1,488,840 thousand. The interest rate is set at EURIBOR(6m) + margin of 4.25% per annum. Repayment is provided for in equal semi-annual installments with final repayment in 2023.

Loans from international financial institutions include a loan from the Nordic Environment Finance Corporation under Financing Energy Efficiency and Renewable Energy Project in the amount of UAH 173,461 thousand (31 December 2019: none). The amount of loan under the Loan Agreement is equivalent to EUR 5,000 thousand. The loan is denominated in EUR, the Bank accounts for loan tranches in EUR at the floating rate of 3.0%. The loan matures in 2025.

Loans from other banks include a loan from the Entrepreneurship Development Fund (EDF) attracted under the lending program for micro, small and medium businesses (private entrepreneurs and legal entities of private ownership). Loan debt to the EDF is secured by investment securities (Note 11).

For the purposes of the consolidated cash flow statement presentation, the Bank allocates funds attracted from credit institutions between operating and financing activities. Funds raised from the Ukrainian banks were included in the funds for operating activities, and funds from other banks were included in the funds for financing activities.

Loan agreements with international financial organisations and come other banks provide for certain covenants.

(thousands of Ukrainian hryvnia, unless otherwise stated)

19. Amounts due to customers

Amounts due to customers comprise:

	<i>31 December 2020</i>	<i>31 December 2019 (restated)</i>	<i>1 January 2019 (restated)</i>
Current accounts:			
- Legal entities	31,955,659	16,312,008	17,801,574
- Budget financed organizations	12,265,200	7,358,773	6,592,570
- Individuals	5,300,720	4,182,834	4,108,278
- Funds under the Bank's management	–	1	1
	<u>49,521,579</u>	<u>27,853,616</u>	<u>28,502,423</u>
Time deposits:			
- Legal entities	42,376,624	27,122,765	31,235,635
- Individuals	23,682,905	21,645,529	22,117,965
	<u>66,059,529</u>	<u>48,768,294</u>	<u>53,353,600</u>
Amounts due to customers	<u>115,581,108</u>	<u>76,621,910</u>	<u>81,856,023</u>
Held as security against guarantees and avals (Note 23)	584,524	689,701	899,741
Held as security against loans to customers (Note 10)	397,135	962,789	1,152,540
Held as security against letters of credit (Note 23)	88,524	178,683	1,020,095
Held as security against undrawn loan commitments (Note 23)	6,988	12,384	12,800
Advance payments received under finance lease	–	–	564,524

As at 31 December 2020, legal entities current accounts included funds of ten largest customers in the amount of UAH 11,616,712 thousand (36.4% of legal entities current accounts) (31 December 2019: UAH 4,066,924 thousand, or 24.2%).

As at 31 December 2020, individuals' current accounts included funds of ten largest customers in the amount of UAH 236,439 thousand (4.5% of individuals' current accounts) (31 December 2019: UAH 167,498 thousand, or 4.0%).

As at 31 December 2020, term deposits of legal entities included funds attracted from five customers in the amount of UAH 19,731,857 thousand (46.6% of term deposits of legal entities) (31 December 2019: UAH 12,560,174 thousand, or 46.3%).

As at 31 December 2020, term deposits of individuals included funds attracted from ten customers in the amount of UAH 1,473,358 thousand (6.2% of term deposits of individuals) (31 December 2019: UAH 1,077,644 thousand, or 5.0%).

As at 31 December 2020, term deposits of legal entities included funds raised in gold, which are measured at fair value through profit or loss in the amount to UAH 22,460 thousand (31 December 2019: UAH 13,860 thousand). As at 31 December 2020, there is no change in fair value of funds raised in gold due to changes in credit risk (31 December 2019: none).

The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only cases provided for by the deposit agreement.

(thousands of Ukrainian hryvnia, unless otherwise stated)

19. Amounts due to customers (continued)

An analysis of customer accounts by economic sector is as follows:

	<i>31 December 2020</i>	<i>%</i>	<i>31 December 2019 (restated)</i>	<i>%</i>
Individuals	28,983,625	25.1	25,828,363	33.7
Transport and communications	14,478,438	12.5	1,330,752	1.7
Budget financed organizations	12,265,200	10.6	7,358,773	9.6
Agriculture and food industry	10,839,611	9.4	14,766,241	19.3
Trade	9,272,977	8.0	6,410,385	8.4
Extractive industry	8,236,199	7.1	420,189	0.5
Mechanical engineering	5,331,007	4.6	3,454,774	4.5
Construction	4,805,259	4.2	1,913,162	2.5
Professional, scientific and technical activities	4,405,263	3.8	2,697,349	3.5
Finance	4,330,899	3.7	2,971,156	3.9
Power engineering	2,214,760	1.9	1,817,574	2.4
Chemical industry	1,212,731	1.0	426,020	0.6
Information and telecommunications	1,013,353	0.9	658,955	0.9
Real estate	1,003,828	0.9	610,738	0.8
Production of construction materials	881,303	0.8	566,666	0.7
Metal processing	772,299	0.7	717,693	0.9
Health protection	737,759	0.6	248,923	0.3
Metallurgy	548,041	0.5	355,225	0.5
Education	506,028	0.4	282,969	0.4
Processing	473,337	0.4	429,333	0.6
Personal services	352,972	0.3	319,979	0.4
Wood processing	327,578	0.3	191,424	0.2
Pulp and paper industry	197,866	0.2	48,307	0.1
Production of rubber and plastic goods	196,211	0.2	104,177	0.1
Light industry	146,960	0.1	88,527	0.1
Hotels and restaurants	22,922	0.1	89,613	0.1
Other	2,024,682	1.7	2,514,643	3.3
Amounts due to customers	<u>115,581,108</u>	<u>100.0</u>	<u>76,621,910</u>	<u>100.0</u>

20. Eurobonds issued

	<i>31 December 2020</i>			<i>31 December 2019</i>		
	<i>Nominal value (‘000)</i>	<i>Currency</i>	<i>Carrying amount</i>	<i>Nominal value (‘000)</i>	<i>Currency</i>	<i>Carrying amount</i>
April 2010 issue	500,000	USD	1,980,940	500,000	USD	5,021,247
October 2010 issue	250,000	USD	990,470	250,000	USD	2,510,623
January 2013 issue	500,000	USD	9,415,079	500,000	USD	12,304,890
April 2013 issue	100,000	USD	1,883,016	100,000	USD	2,460,978
March 2018 issue	4,051,000	UAH	4,267,647	4,051,000	UAH	4,255,338
Eurobonds issued			<u>18,537,152</u>			<u>26,553,076</u>

In April 2010, the Bank, through BIZ Finance PLC (structured company registered in the United Kingdom) issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

(thousands of Ukrainian hryvnia, unless otherwise stated)

20. Eurobonds issued (continued)

The bonds were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 9 July 2015 on the following conditions:

- ▶ The coupon rate of 9.625% p.a.;
- ▶ Maturity date was rescheduled for 7 years, i.e. to 27 April 2022 (in equal semi-annual payments).

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in April 2018. The bonds were consolidated and form a single series with the notes issued in January 2013.

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- ▶ The coupon rate of 9.75% p.a.;
- ▶ Maturity date was rescheduled for 7 years, i.e. to 22 January 2025 with 50% of the principle amount payable on 22 January 2021 and the remaining part of the principle amount payable in eight equal payments from 22 July 2021 through 22 January 2025.

In March 2018, the Bank, through BIZ Finance PLC issued Eurobonds in the form of loan participation notes with a par value of UAH 4,051,000 thousand. The bonds had a fixed coupon rate of 16.5% p.a. and maturity in March 2021.

On 10 November 2020, to optimize the balance sheet structure, the Bank made a partial redemption of Eurobonds in the form of loan participation notes issued through BIZ Finance PLC with the aggregate principal amount of USD 299,995 thousand including:

- ▶ With a par value of USD 215,948 thousand with a coupon rate of 9.75% p.a. and final maturity in January 2025. The redemption price was 104.5% of the nominal value;
- ▶ With a par value of USD 84,047 thousand with a coupon rate of 9.625% p.a. and final maturity in April 2022. The redemption price was 103.75% of the nominal value.

As a result of the redemption, the Bank recognised a loss from derecognition of financial liabilities at amortised cost in the amount of UAH 387,397 thousand. The purpose of this transaction was to reduce interest expenses on Eurobonds issued in future periods.

21. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 1,119,203 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 353,432 thousand) from Credit Suisse International. This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Subordinated debt (continued)

On 29 May 2015, the Bank as a borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor signed the second supplementary loan agreement under which Credit Suisse International was replaced with Biz Finance Plc. from the date of its signing.

On 9 July 2015, the Bank and Biz Finance Plc. signed the Agreement on amendments and revisions to the loan agreement (the Agreement on funds borrowing under subordinated debt terms) of USD 125,000 thousand dated 7 February 2006 as amended by the Supplement loan agreement dated 9 November 2006 and the second Supplementary loan agreement dated 29 May 2015, as follows:

- ▶ Starting 9 August 2015, the interest rate was changed to 7% p.a. + 6m Libor rate and as at 31 December 2020 comprises 7.28913%;
- ▶ Maturity date was rescheduled for 7 years, i.e. to 9 February 2023 with 50% of the principle amount payable on 9 February 2020 and the remaining part of the principle amount payable in six equal semi-annual payments from 9 August 2020 through 9 February 2023.

As at 31 December 2020, the carrying amount of the above mentioned loan was UAH 1,513,690 thousand. (31 December 2019: UAH 3,063,230 thousand).

In November 2019, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand with a fixed coupon rate of 9.95% per annum and maturity in November 2029, with the possibility of early repayment in November 2024, solely for the purpose of financing the Bank's subordinated debt. Interest payments are made semi-annually in arrears on 14 May and 14 November of each year, commencing on 14 May 2020. As at 31 December 2020, the carrying amount of the above mentioned loan was UAH 2,827,486 thousand.

22. Equity

As at 31 December 2020, the Bank's authorised issued share capital comprised 31,168,806 (31 December 2019: 26,490,412) ordinary registered shares with a nominal value of UAH 1,462.04 per share (31 December 2019: 1,462.04 per share). As at 31 December 2020, 31,168,806 ordinary registered shares were fully paid and registered (31 December 2019: 26,490,412 shares were fully paid and registered).

In September 2020, according to Resolution #881 of the Cabinet of Ministers of Ukraine *On Increase of the Share Capital of the Joint-Stock Company "State Export-Import Bank of Ukraine"* of 23 September 2020, the Bank's share capital was increased by UAH 6,839,999 thousand through the issue of 4,678,394 additional shares with the nominal value of UAH 1,462.04 each with 100 percent of these shares held by the State.

In June 2020, according to Resolution #328 of the Cabinet of Ministers of Ukraine *On Approval of the Basic Standard for the Deduction of a Share of Profit, which is Allocated for Distributions of Dividends Following the Results of the 2019 Financial and Business Activities of the Companies whose Authorized Capital Includes the Participatory Interest of the State* of 24 April 2020, the Bank partially allocated its profit for dividend distributions in the amount of UAH 19,086 thousand. According to Article 57 of the Tax Code of Ukraine, the Bank accrued and paid to the budget the advance income tax payment in the amount of UAH 3,435 thousand.

In June 2019, according to Resolution #364 of the Cabinet of Ministers of Ukraine *On Approval of the Basic Standard for the Deduction of a Share of Profit, which is Allocated for Distributions of Dividends Following the Results of the 2018 Financial and Business Activities of the Companies whose Authorized Capital Includes the Participatory Interest of the State* of 24 April 2019, the Bank partially allocated its profit for dividend distributions in the amount of UAH 767,070 thousand. According to Article 57 of the Tax Code of Ukraine, the Bank accrued and paid to the budget the advance income tax payment in the amount of UAH 138,073 thousand.

*(thousands of Ukrainian hryvnia, unless otherwise stated)***22. Equity (continued)****Movements in revaluation reserves**

Movements in revaluation reserves were as follows:

	<i>Property revaluation reserve</i>	<i>Unrealised gains/ (losses) on investment securities at fair value through other comprehensive income</i>	<i>Revaluation reserves</i>
At 1 January 2019	710,805	(1,527,211)	(816,406)
Depreciation of revaluation reserve, net of tax	(13,237)	–	(13,237)
Net gain on investment securities at fair value through other comprehensive income, including:	–	1,167,422	1,167,422
Expenses for expected credit losses of investment securities at fair value through other comprehensive income	–	(17,274)	(17,274)
Net realised loss on investment securities at fair value through other comprehensive income reclassified to the consolidated statement of profit and loss on settlement	–	7,780	7,780
Net unrealised gains on investment securities at fair value through other comprehensive income	–	1,176,916	1,176,916
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2019	697,568	(359,789)	337,779
Depreciation of revaluation reserve, net of tax	(14,221)	–	(14,221)
Revaluation of property and equipment	342,478	–	342,478
Income tax related to components of other comprehensive income	(12,538)	–	(12,538)
Net loss on investment securities at fair value through other comprehensive income, including:	–	(127,815)	(127,815)
Expenses for expected credit losses of investment securities at fair value through other comprehensive income	–	(36,191)	(36,191)
Net realised loss on investment securities at fair value through other comprehensive income reclassified to the consolidated statement of profit and loss on settlement	–	34,113	34,113
Net unrealised losses on investment securities at fair value through other comprehensive income	–	(125,737)	(125,737)
Income tax related to components of other comprehensive income	–	–	–
At 31 December 2020	1,013,287	(487,604)	525,683

Nature and purpose of reserves*Property revaluation reserve*

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/(losses) on investment securities at fair value through other comprehensive income

This reserve reflects changes in fair value of investment securities at fair value through other comprehensive income.

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Equity (continued)

Nature and purpose of reserves (continued)

Reserves and other funds of the Bank

The Bank's reserve fund is created under the Charter up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of allocations to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created for unforeseen losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2020, the amount of non-distributable reserves was UAH 407,494 thousand (31 December 2019: UAH 500,705 thousand). The Bank's non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

23. Commitments and contingencies

Operating environment

The Ukrainian economy is open, non-diversified, deemed to be a market one with some emerging market features, and has critical dependence on world commodity prices and low levels of liquidity in the international capital market. Under such circumstances, high risks not typical of mature markets are inherent in banking in Ukraine.

Further growth of the Ukrainian economy depends on foreign market conditions, international financial aid, coordinated policy and decisions of the Verkhovna Rada, the Government, NBU and the Presidential Office designed to overcome the effects of the pandemic and the global economic crisis, including to control the COVID-19 proliferation, ensure health care of the population, stick to macroeconomic sustainability, save jobs, keep on with the required reforms, maintain the social and political stability, and trace the progress in the east of the country.

After the recovery during 2016-2019, in 2020 the Ukrainian economy was exposed to a negative impact of the global economic crisis aggravated by the COVID-19 pandemic. Rapid proliferation of the pandemic in 2020 forced many governments worldwide, including in Ukraine, to initiate a number of measures to overcome the outbreak, including to restrict travels, close business, introduce lockdown restrictions in specific areas, quarantine etc. These measures have affected the global supply logistics, the demand for goods and services, and the overall business scale, which has caused the volatility in financial and commodity markets.

Overall, in the reporting year, the movements of price for the traditional Ukrainian export were moderately declining. Still, the higher-than-anticipated fall in prices for energy resources, as compared to the chemical and agricultural products exported from Ukraine, in light of the tendency for bigger-than-expected decline in import of goods and services has resulted in the reduced deficit of foreign trade and in a current account surplus.

The moderate deficit in foreign trade was compensated by the foreign currency inflows to the financial account, as well as by private sector transactions, placement of Ukrainian Eurobonds and proceeds from financial assistance provided by the international financial organisations (IFO). A new Stand-By Arrangement (SBA) with IMF is to facilitate the receipt of financial aid from other official lending institutions (the World Bank, the European Commission) and from IFO, aimed to fund the budget deficit and to support the balance of payments, international reserves and exchange rate stability. As at 31 December 2020, the official UAH/USD exchange rate was UAH 28.27 to 1 US Dollar (31 December 2019: UAH 23.69 to 1 US Dollar). As at 1 January 2021, the NBU international reserves exceeded USD 29 billion (1 January 2020: USD 25.3 billion).

The global economic crisis and the implemented quarantine measures intended to counteract the coronavirus disease have caused the decline in almost all economy sectors of Ukraine in Q2-Q3 of the current year.

At the same time, according to the State Statistics Service, in December 2020, the index of industrial production increased by 3.2%, the index of retail trade turnover increased by 13.4%, the index of construction works increased by 8.2%. The index of agricultural production decreased by 11.5%. According to the results of 2020, the a drop in the real GDP of Ukraine amounted to -4.2%.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Operating environment (continued)

In 2020, the inflation dynamics kept moderate owing to the maintained exchange rate stability against the decline in investment and consumer demand. According to the State Statistics Service, consumer inflation was 5% in December of the current year (as compared to December 2019). The slow-down of inflation dynamics in 2019-2020 and the need to intensify the credit support of the national economy has resulted in the National Bank of Ukraine to further soften its monetary policy with gradual reduction of the discount rate to 10% per annum from 13 March 2020, to 8% from 24 March 2020 and to 6% from 12 June 2020.

The crisis in the real economy aggravated by quarantine has negatively affected the production scale, capital investments and employment rate. This has deteriorated the financial position of quite a few businesses and households and increased the risks of active operations. As such, the liquidity available was invested by the banking institutions mostly in low-risk financial instruments (such as NBU deposit certificates, government securities) and in sectoral support of the economy using guarantees from the Government and refinancing from NBU.

Long-lasting excess of expenses over income and reduced borrowings by the population, decline in business income, actually no opportunities for external borrowings – this all restricts significantly the possibility of the Bank's funding in Ukraine and in external capital markets.

In March-December 2020, the Government and the NBU introduced some support measures to address the COVID-19-driven economic recession. Those measures include, among other, subsidized loans to the affected industries and people, loan repayment holidays, liberalization of certain regulatory restrictions aimed to help the financial sector keep its funding potential and help the clients avoid the liquidity shortfall owing to the COVID-19 outbreak control measures in place.

In addition, to stimulate the economy, the National Bank of Ukraine introduced an interest rate swap, which allows the banks to provide long-term financing. The NBU's rather soft monetary policy was accompanied by a stable exchange rate and a slight rise in inflation. The Ministry of Finance conducts successful auctions to place Ukrainian state bonds gradually increasing the maturity of Ukrainian state bonds.

Economic crisis in light of the still existing threat of next waves of COVID-19 outbreak and the risk of UAH devaluation, as well as the need to make significant payments of liabilities affect negatively the Bank's financial position and operations. The Bank keeps analysing the impact that the pandemic and the changes in the micro- and macroeconomic environment have on its operations, economic situation and financial performance. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank's business. At the same time, in 2020, the Bank began the process of large-scale transformation of business and operational models, developed and approved a new development strategy for 2021-2024. Measures taken to modify and improve the processes and management renewal allowed to set off the effect of the COVID-19 pandemic on most of the Bank's economic performance. There was no negative dynamics in most items of the statement of profit and loss. The effect of pandemic on the Bank's credit risk was analysed separately.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future. Assessment of amount and probability of negative consequences of possible unreported claims are unreasonable.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Tax and other regulatory compliance (continued)

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties (non-residents) and, in some cases with unrelated parties (controlled transactions) that are not at market value, entities should charge additional tax liabilities.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

Credit-related commitments

Credit-related commitments included:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Undrawn loan commitments	11,487,832	8,806,875
Financial guarantees	273,167	830,808
Letters of credit	146,068	226,691
Avals on promissory notes	334,339	178,269
	<u>12,241,406</u>	<u>10,042,643</u>
Less: provisions	(135,531)	(49,062)
Credit-related commitments (before deducting cash held as security)	<u>12,105,875</u>	<u>9,993,581</u>
Less: cash held as security against letters of credit, avals, financial guarantees and undrawn loan commitments (Notes 19)	<u>(220,884)</u>	<u>(271,420)</u>
Credit-related commitments	<u>11,884,991</u>	<u>9,722,161</u>

As at 31 December 2020, credit-related commitments amounted to UAH 11,487,832 thousand, including revocable credit-related commitments of UAH 10,797,201 thousand (31 December 2019: UAH 8,806,875 thousand, including revocable credit-related commitments of UAH 7,984,227 thousand).

As at 31 December 2020, the Bank issued letters of credit of UAH 139,950 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 83,999 thousand (31 December 2019: UAH 213,453 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 171,337 thousand).

As at 31 December 2020, the Bank issued financial guarantees of UAH 135,283 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 75,686 thousand (31 December 2019: UAH 608,527 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 13,326 thousand).

As at 31 December 2020, the Bank's undrawn loan commitments for transactions with plastic cards amounted to UAH 386,665 thousand (31 December 2019: UAH 403,598 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

The following tables show the analysis of changes in credit-related commitments and the corresponding provision:

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Credit-related commitments at 1 January 2020	8,164,028	12,358	–	2,520	627,969	8,806,875
New liabilities originated or purchased	12,986,696	–	–	–	–	12,986,696
Completed (settled) liabilities	(10,236,848)	(160,767)	–	(61,735)	(594,735)	(11,054,085)
Transfer to Stage 1	47,404	(47,404)	–	–	–	–
Transfer to Stage 2	(304,356)	283,880	21,885	(1,409)	–	–
Transfer to Stage 3	(59,189)	(1,417)	–	60,606	–	–
Changes in liabilities	383,436	(45,238)	–	933	(33,223)	305,908
Translation differences	438,546	3,849	(19)	62	–	442,438
Credit-related commitments at 31 December 2020	11,419,717	45,261	21,866	977	11	11,487,832

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Credit-related commitments at 1 January 2019	5,475,800	6,664	–	6,229	100,069	5,588,762
New liabilities originated or purchased	8,566,781	–	–	–	–	8,566,781
Completed (settled) liabilities	(6,516,225)	(20,861)	–	(6,168)	(23,533)	(6,566,787)
Transfer to Stage 1	15,639	(15,639)	–	–	–	–
Transfer to Stage 2	(484,241)	30,888	453,799	(446)	–	–
Transfer to Stage 3	(5,669)	(1,205)	(518,483)	2,425	522,932	–
Changes in liabilities	1,516,118	12,621	64,684	480	28,501	1,622,404
Translation differences	(404,175)	(110)	–	–	–	(404,285)
Credit-related commitments at 31 December 2019	8,164,028	12,358	–	2,520	627,969	8,806,875

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Provision for credit-related commitments at 1 January 2020	47,357	206	646	48,209
New liabilities originated or purchased	153,395	–	–	153,395
Completed (settled) liabilities	(94,483)	(8,063)	(22,612)	(125,158)
Transfer to Stage 1	1,773	(1,773)	–	–
Transfer to Stage 2	(8,420)	9,116	(696)	–
Transfer to Stage 3	(21,758)	(272)	22,030	–
Changes in provision	(10,462)	2,646	1,160	(6,656)
Modifications in macro-model inputs	55,366	1,700	–	57,066
Translation differences	3,938	153	(126)	3,965
Provision of credit-related commitments at 31 December 2020	126,706	3,713	402	130,821

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Stage 3 Individual</i>	<i>Total</i>
Provision for credit-related commitments at 1 January 2019	61,657	91	–	2,956	3,981	68,685
New liabilities originated or purchased	140,039	–	–	–	–	140,039
Completed (settled) liabilities	(74,501)	(298)	–	(2,806)	(1,450)	(79,055)
Transfer to Stage 1	383	(383)	–	–	–	–
Transfer to Stage 2	(8,562)	655	8,182	(275)	–	–
Transfer to Stage 3	(326)	(146)	–	385	87	–
Changes in provision	(67,582)	287	(8,182)	386	(2,618)	(77,709)
Translation differences	(3,751)	–	–	–	–	(3,751)
Provision of credit-related commitments at 31 December 2019	<u>47,357</u>	<u>206</u>	<u>–</u>	<u>646</u>	<u>–</u>	<u>48,209</u>

The following tables show the analysis of changes in financial guarantees and corresponding provisions:

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Financial guarantees at 1 January 2020	818,197	12,611	–	–	830,808
New financial guarantees originated or purchased	1,690,525	–	–	–	1,690,525
Completed (settled) financial guarantees	(2,128,381)	(68,359)	–	–	(2,196,740)
Transfer to Stage 1	28,178	(28,178)	–	–	–
Transfer to Stage 2	(138,582)	150,940	18,924	(31,282)	–
Transfer to Stage 3	–	(29,596)	–	29,596	–
Changes in financial guarantees	(101,601)	–	–	–	(101,601)
Translation differences	51,058	(3,488)	919	1,686	50,175
Financial guarantees at 31 December 2020	<u>219,394</u>	<u>33,930</u>	<u>19,843</u>	<u>–</u>	<u>273,167</u>

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Financial guarantees at 1 January 2019	910,802	7,869	–	918,671
New financial guarantees originated or purchased	799,486	–	–	799,486
Completed (settled) financial guarantees	(526,329)	(3,225)	(12,018)	(541,572)
Transfer to Stage 2	(22,256)	22,256	–	–
Transfer to Stage 3	–	(13,496)	13,496	–
Changes in financial guarantees	(258,182)	–	–	(258,182)
Translation differences	(85,324)	(793)	(1,478)	(87,595)
Financial guarantees at 31 December 2019	<u>818,197</u>	<u>12,611</u>	<u>–</u>	<u>830,808</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Provision for financial guarantees at 1 January 2020	335	2	–	337
New financial guarantees originated or purchased	138	–	–	138
Completed (settled) financial guarantees	(337)	(98)	–	(435)
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(42)	333	(291)	–
Transfer to Stage 3	–	(51)	51	–
Changes in provision	18	(184)	192	26
Modifications in macro-model inputs	70	–	–	70
Translation differences	9	(2)	48	55
Provision for financial guarantees at 31 December 2020	191	–	–	191

	<i>Stage 1 Collective</i>	<i>Stage 2 Collective</i>	<i>Stage 3 Collective</i>	<i>Total</i>
Provision for financial guarantees at 1 January 2019	717	4	–	721
New financial guarantees originated or purchased	497	–	–	497
Completed (settled) financial guarantees	(172)	–	(767)	(939)
Transfer to Stage 2	(19)	19	–	–
Transfer to Stage 3	–	(49)	49	–
Changes in provision	(683)	29	833	179
Translation differences	(5)	(1)	(115)	(121)
Provision for financial guarantees at 31 December 2019	335	2	–	337

The following tables show the analysis of changes in the letters of credit (except for security accounts) and the corresponding provisions:

	<i>Stage 1 Collective</i>
Letters of credit at 1 January 2020	48,009
New letters of credit originated or purchased	80,826
Completed (settled) letters of credit	(63,482)
Changes in letters of credit	(19,228)
Translation differences	11,419
Letters of credit at 31 December 2020	57,544

	<i>Stage 1 Collective</i>
Letters of credit at 1 January 2019	60,204
New letters of credit originated or purchased	38,447
Completed (settled) letters of credit	(19,765)
Changes in letters of credit	(21,901)
Translation differences	(8,976)
Letters of credit at 31 December 2019	48,009

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	<i>Stage 1 Collective</i>
Provision for letters of credit at 1 January 2020	505
New letters of credit originated or purchased	3,009
Completed (settled) letters of credit	(365)
Changes in provision	(1,602)
Modifications in macro-model inputs	2,561
Translation differences	369
Provision for letters of credit at 31 December 2020	<u>4,477</u>

	<i>Stage 1 Collective</i>
Provision for letters of credit at 1 January 2019	2,360
New letters of credit originated or purchased	126
Completed (settled) letters of credit	(64)
Changes in provision	(1,674)
Translation differences	(243)
Provision for letters of credit at 31 December 2019	<u>505</u>

The following tables show the analysis of modifications in avals and corresponding provisions:

	<i>Stage 1 Collective</i>
Avals at 1 January 2020	178,269
New avals originated or purchased	1,953,480
Completed (settled) avals	(1,384,468)
Changes in avals	(412,942)
Avals at 31 December 2020	<u>334,339</u>

	<i>Stage 1 Collective</i>
Avals at 1 January 2019	349,446
New avals originated or purchased	1,564,328
Completed (settled) avals	(1,135,761)
Changes in avals	(599,744)
Avals at 31 December 2019	<u>178,269</u>

	<i>Stage 1 Collective</i>
Provision for avals at 1 January 2020	11
New avals originated or purchased	145
Completed (settled) avals	(84)
Changes in provision	(50)
Modifications in macro-model inputs	20
Provision for avals at 31 December 2020	<u>42</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Credit-related commitments (continued)

	<i>Stage 1 Collective</i>
Provision for avals at 1 January 2019	30
New avals originated or purchased	128
Completed (settled) avals	(80)
Changes in provision	(67)
Provision for avals at 31 December 2019	11

Performance guarantees

Performance guarantees are arrangements on the provision of compensation if a counterparty fails to perform contractual obligations. Performance guarantees are not exposed to credit risk. Risk related to a counterparty's possible failure to perform contractual obligations

	<i>31 December 2020</i>	<i>31 December 2019</i>
Performance guarantees	2,921,593	2,505,110
Less: provisions	(3,455)	(244)
Commitments related to performance guarantees (before deducting cash held as security)	2,918,138	2,504,866
Less: cash held as security for performance guarantees (Note 19)	(459,152)	(609,348)
Commitments related to performance guarantees	2,458,986	1,895,518

The provision for performance guarantees is recognised in other liabilities.

Movements in provisions for performance guarantees are provided in the tables below:

Provision at 1 January 2020	244
Charge/(reversal)	3,165
Translation differences	46
Provision at 31 December 2020	3,455
Provision at 1 January 2019	829
Charge/(reversal)	(520)
Translation differences	(65)
Provision at 31 December 2019	244

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are specified by the agreements, other documents agreed upon by the parties to the agreements with reference to the international and local regulatory requirements.

These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Commitments and contingencies (continued)

Pledged assets

The Bank pledges as collateral the assets stated in the consolidated statement of financial position in terms of various current transactions carried out under the normal conditions applicable to such agreements.

As at 31 December 2020, the securities pledged by the Bank as collateral are:

<i>Liability type</i>	<i>Liability amount</i>	<i>Asset type</i>	<i>Asset carrying amount</i>
NBU refinancing loans	16,008,768	Ukrainian state bonds at fair value through profit or loss	15,902,090
		Ukrainian state bonds at fair value through other comprehensive income	8,094,665
		Ukrainian state bonds at amortised cost	4,083,722
		Corporate bonds	83,551
NBU interest rate swap (notional amount)	6,822,406	Ukrainian state bonds at fair value through other comprehensive income	334,849
Loan from the Entrepreneurship Development Fund	52,316	Ukrainian state bonds at fair value through other comprehensive income	94,566

24. Commission income and expense

	<i>2020</i>	<i>2019</i>
Commission income		
Cash and settlement service	507,638	718,047
Transactions with banks	169,252	161,781
Guarantees and letters of credit	120,424	146,134
Credit servicing commission	32,081	13,089
Other	47,657	43,003
	<u>877,052</u>	<u>1,082,054</u>
Commission expense		
Cash and settlement service	(312,818)	(418,673)
Currency conversion	(10,646)	(5,470)
Guarantees and letters of credit	(1,962)	(3,488)
Other	(3,315)	(2,635)
	<u>(328,741)</u>	<u>(430,266)</u>

*(thousands of Ukrainian hryvnia, unless otherwise stated)***25. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	<i>2020</i>	<i>2019</i>
Salaries and bonuses	1,274,862	1,299,010
Mandatory contributions to the state funds	221,870	221,629
Personnel expenses	<u>1,496,732</u>	<u>1,520,639</u>
Payables to the Individual Deposit Guarantee Fund	270,563	255,776
Repair and maintenance of property and equipment	146,046	131,278
Operating taxes	67,046	41,264
Legal and advisory services	58,603	13,575
Security	57,244	54,973
Expenses at initial recognition of financial assets at a value higher/lower than fair value	40,164	19
Maintenance of premises	35,281	38,407
Electronic and data processing costs	33,908	29,741
Expenses for cash collection	19,054	21,356
Communication services	16,323	16,004
Administrative expenses	15,745	20,792
Personnel recruitment expenses	12,974	–
Rent of premises	12,231	14,303
Marketing and advertising	7,384	8,994
Losses / (reversal of losses) on impairment of performance guarantees	3,167	(521)
Business travel and related expenses	3,101	7,902
Representative offices expenses	2,805	3,933
Losses on revaluation of repossessed pledged property	2,620	–
Charity	1,144	7,445
(Reversal of losses) / losses on impairment of non-financial assets	(2,819)	14,449
Loss on decrease in fair value of investment property	–	117,657
Other	54,223	69,449
Other operating expenses	<u>856,807</u>	<u>866,796</u>

Expenses for payment to the non-state pension fund in 2020 amounted to UAH 17,820 thousand (2019: UAH 22,746 thousand).

26. Risk management**Introduction**

The risk management system is key to ensuring the Bank's sustainable operations and provides for a continuous risk analysis in order to make timely and adequate management decisions to mitigate risks and reduce the related expenses.

The Bank's risk management system is comprehensive and built with regard to the Bank's size, types and scale of operations, as well as the complexity, nature and scope of its transactions, risk profile and systemic importance of the Bank. The Bank and its governing bodies constantly ensure the measures for the sustainable development of a risk management culture and the effective functioning of the Bank's risk management system.

The Bank's risk management system covers the following types of risks:

- ▶ Credit risk;
- ▶ Liquidity risk;
- ▶ Interest risk in the banking book;
- ▶ Market risk;
- ▶ Operational risk;
- ▶ Compliance risk.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Introduction (continued)

Risk management structure

The Bank's risk management system is based on a segregation of responsibilities between all stand-alone structural and separate units of the Bank using the three line protection model. The Supervisory Board is ultimately responsible for establishment and approval of objectives in risk and capital management and approval of the risk management strategy. The new composition of the Bank's Supervisory Board was formed in 2019 in accordance with the new legal requirements for governing bodies of state-owned banks.

The Bank has separate independent units responsible for risk management and monitoring. The following collegiate bodies and structural subdivisions are responsible for the risk management process at the Bank: Risk Committee of the Supervisory Board, Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Non-performing Asset Management Committee, Risk-management Divisions, Compliance Control Division, Treasury and Investment Services Division, Internal Audit Division, Assets and Liabilities Division. At that, the risk management is carried out at the Bank's all organizational levels, including by involving every employee of the Bank in the risk management process.

The Bank's risk management system is regulated by a number of the Bank's risk management regulations, including risk management strategy, risk appetite statement, risk management policies (for each significant type of risk), appropriate methodologies, models, rules, procedures, etc., most of which were developed with due regard to the requirements of Resolution #64 of the Board of the National Bank of Ukraine of 11 June 2018 and are subject to annual updating.

Risk management at the Bank is carried out by identifying, assessing, continuous and qualitative risk analysis, identifying and establishing an acceptable level of risk (including limits), risk prediction, capital amount estimation based on the results of risk assessment and/or forecasting (including stress testing), risks monitoring and control through taking into account their level of acceptability for each type of risk, implementation of measures to mitigate/reduce the level of risks and reporting on risks to the Bank's management, including the Supervisory Board, Risk Committee of the Supervisory Board, Management Board and other collegial bodies of the Bank (on a daily, monthly and quarterly basis).

The Bank ensures constant monitoring of risks, their levels, as well as actual implementation of measures aimed at minimizing risks and their effectiveness. Cases of violation of risk limits/indicators and significant increase in risk (maximum approximation of actual risk levels to the established limits), this is communicated to the authorised collegial bodies of the Bank, including the Management Board and Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using methods, which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of emergency events with a low probability of occurrence. The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank, which reflect the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

The dedicated committees of the Management Board (Credit Committee, ALCO, Operational and Compliance Risk Management Committee) and the Management Board, on a monthly basis, and the Supervisory Board, on a quarterly basis, receive a detailed risk report to provide all relevant information to allow relevant collegial and management bodies to assess the Bank's risks, draw appropriate conclusions and, if necessary, make appropriate management decisions.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Introduction (continued)

Risk concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

To avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review.

Credit risk management is primarily aimed at ensuring fulfilment of liabilities by the Bank's customers (counterparties) in the form, amount and within time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

The credit risk management includes the following:

- ▶ Setting and constant control of observation of credit risk critical thresholds/limits and support of the credit authority system;
- ▶ Providing loans or undertaking loan related commitments solely in accordance with the approved Credit Policy and the Bank's internal regulations;
- ▶ Assessing credit risk within the established credit risk level in accordance with the requirements of the National Bank of Ukraine and determining allowances in accordance with IFRS, creating and maintaining allowances for impairment in adequate amounts;
- ▶ Constant monitoring of both individual loans/commitments and sub-portfolios and total credit portfolio, including over time with identification of significant changes and their causes.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

The Bank manages individual credit risk by properly analysing the borrower and transaction, structuring the agreement, as well as taking into account the classification of customers (counterparties) using the internal credit rating system which is determined on the basis of financial data (quantitative characteristics) and non-financial data (qualitative characteristics) in respect of customers (counterparties), taking into account warning signals and parent company (if any) support, assessment and monitoring of collateral, limits on monitoring the borrower's performance of its obligations to the bank and making operational decisions on further work with borrowers who commit violations, creating sufficient allowance for impairment of assets.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: classification on the basis of an internal system of ratings, monitoring of the credit portfolio structure (by credit ratings of customers, industries, etc.); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Credit risk (continued)

The diversification of credit portfolio (in particular, is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total amount of loans issued to customers.

Credit-related commitment risks

The Bank issues financial guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. Uncovered letters of credit expose the Bank to risks similar to credit risks which are mitigated by similar control procedures and principles.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Impairment of financial assets

Assessment of expected credit losses

The Bank recognises an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as credit-related commitments and financial guarantees ("financial instruments"). Equity instruments are not subject to impairment.

The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. The 12 months ECL is the portion of the lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both the lifetime ECL and 12 months ECL are calculated on either an individual basis or a collective basis.

Assessment of whether the credit risk has increased significantly by considering the change in the risk of default occurring over the remaining life of the financial instrument, identification of default events and calculation of allowance is made by the Bank at the end of each reporting period (monthly).

The Bank groups its financial instruments, for which ECL is measured, as described below:

Stage 1	When financial instruments are first recognised, the Bank recognises an allowance based on 12 months ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other Stages.
Stage 2	When a financial instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Financial instruments considered credit-impaired. For such financial instruments, the Bank records an allowance for the lifetime ECL.
Purchased or originated credit impaired financial assets (POCI)	Purchased or originated credit impaired financial assets are assets that are credit impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Impairment of financial assets (continued)

Calculation of expected credit losses

To identify whether the credit risk has increased significantly from the moment of the initial recognition of a financial instrument, the Bank uses the defined lists of the events that have the signs of the increased credit risk. Irrespective of whether or not the events that have the signs of the increased credit risk occur, it is deemed that the performance of financial liabilities delayed for more than 30 days is the evidence that the credit risk has increased significantly from the moment of the initial recognition of a financial instrument.

The Bank considers that the event of default has occurred in relation to a financial instrument and, respectively, allocates such asset to Stage 3 (credit-impaired asset) where the borrower has delayed the performance of its financial liabilities for more than 90 days and where the interest due dates have been restructured (for more than 90 days) or where the borrower has been declared bankrupt. Where the conditions for a credit-impaired asset are revised and the modification does not result in derecognition of financial assets, such assets remain in Stage 3 until the specified below criteria of absence of default are met.

If the borrower's financial position is improved and its solvency is restored, the asset may be excluded from default when the following major criteria are met:

- ▶ Repayment of liabilities overdue more than 90 days that resulted in the recognition of a default and the absence of overdue payments more than 7 days during the last six consecutive months as at the reporting date;
- ▶ Settlement of payments postponed as part of restructuring (with respect to accrued interest payment) or payment of income in the amount more than the amount of income that was restructured;
- ▶ Repayment of debt in the amount not less than 50% of debt at the date of restructuring.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default (PD)	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon.
Exposure at Default (EAD)	The Exposure at Default is an estimate of the exposure at default. In the ECL calculation for the entire lifetime of a financial instrument, its expected changes after the reporting date are considered, including the provision/repayment of the debt principal, accrual and payment of interest.
Loss Given Default (LGD)	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs. LGD is based on the difference between the contractual cash flows due and the one that the Bank would expect to receive, including from the realisation of any collateral.

Depending on the qualities of a financial instrument, the Bank calculates ECL either on an individual basis (scenario analysis) or a collective (portfolio) basis.

The Bank calculates ECLs on an individual basis for all stage 2 or stage 3 assets of the borrowers whose debt to the Bank is significant (equivalent to over UAH 300,000 thousand), of bank borrowers, and the assets, which at the moment of derecognition of an initial instrument and recognition of a new one were classified as POCI. As part of the scenario analysis, the Bank calculates ECL based on the forecast of the cash flows discounted using effective interest rate with due consideration of the period of cash flow proceeds. During calculation, the likelihood that the scenario will be implemented in an upside case, base and downside cases is considered.

The Bank calculates ECL on a collective (portfolio) basis for all other assets grouped by the respective features, including by the credit risk profile, and uses for calculation the models relevant for the respective group and relies on a broad range of forward looking information as economic inputs.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

For the off-balance sheet financial instruments, the allowance is calculated similar to that for the balance-sheet financial instruments, with due consideration of a conversion rate.

*(thousands of Ukrainian hryvnia, unless otherwise stated)***26. Risk management (continued)****Impairment of financial assets (continued)***Debt instruments at fair value through other comprehensive income*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remain at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Purchased or originated credit impaired financial assets

For purchased or originated credit impaired assets, the Bank recognises as estimated ECL allowance only changes in ECL accumulated from the initial recognition for the entire term.

Internal rating and probability of default assessment process

The Bank applies an approach to assess of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and rating class (PD-Rate) ranging from 1 to 17 (17 grades). Rating class 1-14 corresponds to not default, rating class 15-17 corresponds to default (probability of default is 100%).

The following information is used to calculate the borrowers/Group rating:

- ▶ Financial statements data;
- ▶ Answers to non-financial issues;
- ▶ Warning signals in respect of the borrower (high risk factors);
- ▶ Information on the level of support from the Group (parent company support level, if any).

The estimated probability of default (PD) and rating class (PD-Rate) are determined on the basis of the quantitative (financial model) and qualitative (non-financial model) factors, the weight of the model factors is 80% and 20%, respectively. The estimated rating is modified (decreased) using the warning signals and taking into account the parent company support (increased or decreased), if any.

The rating system is revised (validation and adjustment, if required) on an annual basis.

The Bank uses the following levels of internal credit rating (rating class) to assess the assets of corporate borrowers.

<i>Internal rating class (PD-Rate)</i>	<i>Probability of default (PD)</i>	<i>Internal rating description</i>
From 1 to 7	Up to 4.67%	High rating
From 8 to 9	From 4.68% to 10.78%	Standard rating
From 10 to 14	From 10.79% to 99.9%	Low rating
From 15 to 17	100%	Credit-impaired assets (default)

In the following table, for the exposures of foreign credit institutions, high rating is equal to or higher than BBB- rating by Fitch, standard rating is below BBB-, but higher than CCC+, substandard rating is equal to or lower than CCC+ by Fitch. The probability of default (PD) for the respective rating levels is calculated as the average of the actual defaults over the past five years according to Standard&Poor's, an international rating agency, statistics. In case of a zero value of actual defaults for the respective ratings, the nearest non-zero value of the default level is used. The statistics are reviewed on an annual basis.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Impairment of financial assets (continued)

The Bank uses the following external credit ratings to assess foreign credit institutions

<i>Standard&Poor's rating</i>	<i>Probability of default (PD), average level for the last five years</i>	<i>Rating description</i>
From AAA to BBB-	Up to 0.076%	High rating
From BB+ to B-	From 0.077% to 4.68%	Standard rating
From CCC+ to C	From 4.69% to 99.9%	Low rating
R; SD; D	100%	Credit-impaired assets (default)

Exposure at Default (EAD)

For Stage 1, the exposure at default (EAD) is equal to the gross carrying amount of a financial instrument at the calculation date.

For Stages 2 and 3, EAD is calculated for the entire lifetime of the asset, with the principal, future interest and accumulated depreciation determined on the basis of the repayment schedule.

For credit products having no repayment schedules (such as revolving credit lines, credit cards), the EAD is constant in time and is equal to the current gross carrying amount of the loan.

The EAD for credit related commitments and other financial liabilities is calculated based on a credit conversion factor (CCF).

Loss Given Default (LGD)

Loss given default (LGD) is one of credit risk components on the basis of which the expected credit losses are estimated and shows a share of current loan debt which the bank would lose irrevocably in the event of default of a borrower with regard to the existing collateral for the loan and other characteristics of loan and borrower. The main acceptable repayment sources are as follows: repayment through enforcement of collateral (by types of collateral) and cash repayment (by business lines of the borrowers' activities), less the coefficient of expenses for work with the Bank's non-performing portfolio. The coefficients are calculated based on the bank's own statistics for the period of at least 7 years. The statistics and coefficients are reviewed and updated on an annual basis.

Impact of macroeconomic indicators

Under IFRS 9, the Bank takes into account in its estimates of expected credit losses the forecasts of future economic conditions with regard to the link between macroeconomic factors and an integral index of the credit portfolio quality. The actual rate of defaults for the year (by segments) calculated as the ratio of the number of loans that became defaulted during the year to the number of loans that were not defaulted at the beginning of the year, is taken as an integral indicator of the loan portfolio quality. The following indicators and their modifications (change for the year, quarter, time lag) can be taken as macroeconomic factors: Consumer Price Index, GDP growth, export/import growth, etc. The following data serve as the sources of information on the actual and projected macroeconomic indicators: inflation report and other statistical reports of the NBU, the State Statistics Service of Ukraine, IMF and World Bank data, etc. The statistics and macro coefficients are reviewed and updated at least once every six months. Upon the results of review, the macro model coefficients (probability of default adjustment indicators) are determined.

The table below shows the current coefficients of the macro model with regard to segments (business units).

<i>Segment</i>	<i>2021</i>	<i>2022</i>	<i>2023 and subsequent years</i>
Corporate banking	1.17	0.83	0.49
Small and medium-sized business	1.29	0.93	0.90
Retail banking	1.13	0.86	0.84
State-financed institutions	1.13	0.83	0.82

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Impairment of financial assets (continued)

Credit quality by category of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

<i>At 31 December 2020</i>	<i>Note</i>	<i>Stage</i>	<i>High rating</i>	<i>Standard rating</i>	<i>Low rating</i>	<i>Credit-impaired</i>	<i>Total</i>
Financial assets							
Cash and cash equivalents (except for cash in hand)	6	1	45,493,614	2,802,016	—	—	48,295,630
Amounts due from credit institutions	9	1	275,083	69,261	—	—	344,344
		3	—	—	—	812,075	812,075
Loans to customers	10						
Commercial loans		1	12,687,797	3,585,617	1,047,545	—	17,320,959
		2	618,717	9,964,992	6,674,546	—	17,258,255
		3	—	—	—	49,768,362	49,768,362
		POCI	—	—	—	8,792,703	8,792,703
Overdrafts		1	546,278	230,093	17,937	—	794,308
		2	538	1,722	20,306	—	22,566
		3	—	—	—	1,032	1,032
Finance lease receivables		1	—	—	2,016,875	—	2,016,875
		3	—	—	—	4,700	4,700
Promissory notes		1	13,900	—	—	—	13,900
Investment securities	11						
- at fair value through other comprehensive income		1	13,930,353	309,812	—	—	14,240,165
		2	—	363,505	—	—	363,505
		3	—	—	—	4,218,021	4,218,021
- at amortised cost		1	45,230,081	—	—	—	45,230,081
Other financial assets (except for transit accounts on transactions with payment cards)	16	1	108,231	21,295	2,087	—	131,613
		3	—	—	—	95,665	95,665
		POCI	—	—	—	577	577
Total financial assets			<u>118,904,592</u>	<u>17,348,313</u>	<u>9,779,296</u>	<u>63,693,135</u>	<u>209,725,336</u>
Financial liabilities	22						
Financial guarantees		1	100,895	90,794	27,705	—	219,395
		2	2,827	50,946	—	—	53,772
Undrawn loan commitments		1	9,550,663	1,228,344	640,710	—	11,419,717
		2	7,192	34,368	25,567	—	67,127
		3	—	—	—	988	988
Letters of credit (except for coverage accounts)		1	1,593	21,211	34,740	—	57,544
Avals on promissory notes		1	139,270	195,069	—	—	334,339
Total financial liabilities			<u>9,802,440</u>	<u>1,620,732</u>	<u>728,722</u>	<u>988</u>	<u>12,152,882</u>
Total			<u>128,707,032</u>	<u>18,969,045</u>	<u>10,508,018</u>	<u>63,694,123</u>	<u>221,878,218</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Impairment of financial assets (continued)

At 31 December 2019	Note	Stage	High rating	Standard rating	Low rating	Credit- impaired	Total
Financial assets							
Cash and cash equivalents (except for cash in hand)	6	1	28,229,546	3,818,382	51,438	—	32,099,366
Amounts due from credit institutions	9	1	212,440	20	48,255	—	260,715
		3	—	—	—	818,147	818,147
Loans to customers	10						
Commercial loans		1	18,600,788	13,701,334	2,274,155	—	34,576,277
		2	68,320	515,974	2,945,950	—	3,530,244
		3	—	—	—	59,582,259	59,582,259
		POCI	—	—	—	5,387,232	5,387,232
Overdrafts		1	417,753	335,222	126,577	—	879,552
		2	512	10,446	—	—	10,958
		3	—	—	—	451	451
Finance lease receivables		1	—	2,340,816	56,369	—	2,397,185
		2	—	—	137	—	137
		3	—	—	—	4,645	4,645
Promissory notes		1	58,089	—	—	—	58,089
Investment securities	11						
- at fair value through other comprehensive income		1	22,656,710	—	—	—	22,656,710
		3	—	—	—	4,218,021	4,218,021
Other financial assets (except for transit accounts on transactions with payment cards)	16	1	—	—	102,702	—	102,702
Total financial assets			<u>70,244,158</u>	<u>20,722,194</u>	<u>5,605,583</u>	<u>70,010,755</u>	<u>166,582,690</u>
Financial liabilities	22						
Financial guarantees		1	541,695	262,502	14,000	—	818,197
		2	2,369	10,242	—	—	12,611
Undrawn loan commitments		1	5,332,188	2,654,928	176,912	—	8,164,028
		2	6,225	5,425	708	—	12,358
		3	—	—	—	630,489	630,489
Letters of credit (except for coverage accounts)		1	17,915	30,094	—	—	48,009
Avals on promissory notes		1	50,466	127,803	—	—	178,269
Total financial liabilities			<u>5,950,858</u>	<u>3,090,994</u>	<u>191,620</u>	<u>630,489</u>	<u>9,863,961</u>
Total			<u>76,195,016</u>	<u>23,813,188</u>	<u>5,797,203</u>	<u>70,641,244</u>	<u>176,446,651</u>

The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Analysis of collateral

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral. The collateral comes in various forms, such as cash, securities, real estate, inventories, etc. The Bank's accounting policy for collateral assigned to it through its lending arrangements did not change during the reporting year. Collateral, unless repossessed, is not stated in the Bank's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. The fair value of collateral received is valued at inception with subsequent revaluation: real estate, land, vehicles, equipment are revalued at least once every twelve months, other property is revalued not less than once every six months.

The Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models.

Collateral repossessed

The Bank's accounting policy for repossessed collateral remained the same during the reporting year. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations, obtaining lease payments, or should be sold. Assets determined to be useful for the internal operations are transferred to the property and equipment category, assets determined to be held for obtaining lease payments are transferred to investment property category and are recognised at fair value. Assets being repossessed for sale are accounted for in "Non-current assets held for sale" or "Repossessed pledged property".

Write-off

The Bank's accounting policy for write-offs remained the same during the reporting year. In accordance with the Ukrainian law, loans may only be written off with the approval of the Bank's Management Board or Supervisory Board. The Bank does not use the partial write-off of assets. Financial assets are written off in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The table below provides an analysis of the market value of collateral for credit-impaired assets (Stage 3), which is taken into account by the Bank for the purpose of asset impairment assessment at an amount not exceeding the carrying amount of the loan.

At 31 December 2020	Maximum exposure at risk	Collateral market value								Net exposure at risk	Relevant ECLs	
		Cash/ deposits	CMU/ investment banks' guarantees	Real estate	Land	Vehicles	Equipment	Goods / other movable property	Excessive collateral			Total collateral
Commercial loans	58,561,065	303	12,634	12,598,714	730,084	137,428	4,857,259	753,079	(3,791,950)	15,297,551	43,263,514	45,467,133
Overdrafts	1,032	–	–	1,138	–	–	326	–	(432)	1,032	–	565
Total	58,562,097	303	12,634	12,599,852	730,084	137,428	4,857,585	753,079	(3,792,382)	15,298,583	43,263,514	45,467,698

At 31 December 2019	Maximum exposure at risk	Collateral market value								Net exposure at risk	Relevant ECLs
		Cash/ deposits	Real estate	Land	Vehicles	Equipment	Goods / other movable property	Excessive collateral	Total collateral		
Commercial loans	64,969,492	2,118	11,517,620	580,690	54,533	5,377,876	709,995	(4,003,177)	14,239,655	50,729,837	52,473,484
Overdrafts	451	–	–	–	–	–	–	–	–	451	372
Total	64,969,943	2,118	11,517,620	580,690	54,533	5,377,876	709,995	(4,003,177)	14,239,655	50,730,288	52,473,856

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. The Bank considers the loan restructured if the modifications made as a result of existing or expected financial difficulties of the borrower are those that the Bank would not agree in the event of the borrower's financial solvency. Restructuring may include extending repayment terms and agreeing on new loan terms. Once the terms of loan have been renegotiated, the loan is no longer considered overdue. Management continually analyses the renegotiated loans to ensure that all criteria and options for future payments are met.

Geographical concentration

Geographical concentration of the Bank's financial assets and liabilities is provided below:

	31 December 2020			
	<i>Ukraine</i>	<i>OECD countries</i>	<i>CIS countries and other non-OECD countries</i>	<i>Total</i>
Assets				
Cash and cash equivalents	16,369,070	33,537,967	5,906	49,912,943
Amounts due from credit institutions	70,517	245,756	53,887	370,160
Loans to customers	48,608,320	–	–	48,608,320
Investment securities:				
- at fair value through profit or loss	29,008,521	–	–	29,008,521
- at fair value through other comprehensive income	14,543,523	–	–	14,543,523
- at amortised cost	45,174,610	–	–	45,174,610
Other financial assets	248,611	308	312	249,231
	<u>154,023,172</u>	<u>33,784,031</u>	<u>60,105</u>	<u>187,867,308</u>
Liabilities				
Amounts due to credit institutions	1,538,542	24,580,313	173	26,119,028
Amounts due to the National Bank of Ukraine	16,008,768	–	–	16,008,768
Amounts due to customers	114,678,268	265,330	637,510	115,581,108
Eurobonds issued	–	18,537,152	–	18,537,152
Subordinated debt	–	4,341,176	–	4,341,176
Other financial liabilities	1,412,601	75,695	993	1,489,289
	<u>133,638,179</u>	<u>47,799,666</u>	<u>638,676</u>	<u>182,076,521</u>
Net position	<u>20,384,993</u>	<u>(14,015,635)</u>	<u>(578,571)</u>	<u>5,790,787</u>
Credit related commitments (Note 23)	<u>11,884,487</u>	<u>504</u>	<u>–</u>	<u>11,884,991</u>

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Geographical concentration (continued)

	31 December 2019			
	<i>Ukraine</i>	<i>OECD countries</i>	<i>CIS countries and other non-OECD countries</i>	<i>Total</i>
Assets				
Cash and cash equivalents	10,187,595	23,201,459	80,881	33,469,935
Amounts due from credit institutions	43,758	188,822	23,592	256,172
Loans to customers	53,285,804	—	—	53,285,804
Investment securities:				
- at fair value through profit or loss	25,731,949	—	—	25,731,949
- at fair value through other comprehensive income	22,633,899	—	—	22,633,899
Other financial assets	199,083	228	293	199,604
	<u>112,082,088</u>	<u>23,390,509</u>	<u>104,766</u>	<u>135,577,363</u>
Liabilities				
Amounts due to credit institutions	791,560	21,031,227	2,975	21,825,762
Amounts due to customers	75,642,351	268,198	711,361	76,621,910
Eurobonds issued	—	26,553,076	—	26,553,076
Subordinated debt	—	5,429,914	—	5,429,914
Other financial liabilities	603,445	3,083	—	606,528
	<u>77,037,356</u>	<u>53,285,498</u>	<u>714,336</u>	<u>131,037,190</u>
Net position	<u>35,044,732</u>	<u>(29,894,989)</u>	<u>(609,570)</u>	<u>4,540,173</u>
Credit related commitments (Note 23)	<u>9,719,548</u>	<u>2,613</u>	<u>—</u>	<u>9,722,161</u>

Liquidity risk

The liquidity risk is the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

Liquidity risk management is performed:

- ▶ Either on the long-term basis that is focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- ▶ Or on the short-term basis that is focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management includes determination of acceptable levels of maturity gaps (by currency) and also:

- ▶ Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- ▶ Permanent monitoring of actual key liquidity risk indicators;
- ▶ Undertaking adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Liquidity risk (continued)

In addition, the Bank assesses liquidity based on certain liquidity ratios established by the NBU.

	31 December 2020, %	31 December 2019, %
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on bank with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	84.32	112.5
LCR "Liquidity coverage ratio" on all currencies (AC) and in foreign currency (FC) (high-quality liquid assets/ net estimated cash outflow within 30 calendar days: difference of aggregate expected cash outflows and aggregate expected cash inflows where aggregate expected inflows are taken at the amount not more than 75 percent of the total expected outflows using the expected outflow and expected inflow rates established by the National Bank of Ukraine)		
Minimum required by the NBU:		
LCRAC – 100% on all currencies	342.83	839.04
LCRFC – 100% in foreign currency	370.85	567.70

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

<i>Financial liabilities As at 31 December 2020</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Amounts due to the National Bank of Ukraine	734,049	701,083	18,655,063	–	20,090,195
Amounts due to credit institutions	1,909,468	4,070,615	14,409,538	8,856,259	29,245,880
Amounts due to customers	87,955,143	27,622,453	922,748	39,627	116,539,971
Eurobonds issued	10,334,330	3,125,620	6,698,964	–	20,158,914
Subordinated debt	348,199	637,174	2,144,648	4,020,550	7,150,571
Other liabilities	1,482,092	445	6,752	–	1,489,289
Including:					
- lease commitments	94	445	6,752	–	7,291
- derivative financial instruments settled on a net basis	25,164	85,095	277,359	–	387,618
Credit-related commitments	1,128,760	82,673	91,399	–	1,302,832
Total undiscounted financial liabilities	103,917,205	36,325,158	43,206,471	12,916,436	196,365,270

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

<i>Financial liabilities As at 31 December 2019</i>	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Amounts due to credit institutions	3,162,265	4,886,496	9,842,270	8,754,982	26,646,013
Amounts due to customers	60,124,520	16,316,811	1,121,471	79,996	77,642,798
Eurobonds issued	1,027,151	4,626,946	24,775,925	930,447	31,360,469
Subordinated debt	1,614,327	564,674	2,403,781	3,618,211	8,200,993
Other liabilities	601,218	2,439	2,360	511	606,528
<i>Including lease commitments</i>	<i>696</i>	<i>2,439</i>	<i>2,360</i>	<i>511</i>	<i>6,006</i>
Credit-related commitments	1,238,653	562,729	257,034	—	2,058,416
Total undiscounted financial liabilities	67,768,134	26,960,095	38,402,841	13,384,147	146,515,217

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. To limit liquidity risk arising from asymmetric prepayment and early repayment of the term assets and liabilities, the Bank incorporates in standard client agreements the conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- ▶ Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key interest rate risk indicators;
- ▶ Permanent monitoring of actual key interest rate risk indicators;
- ▶ Taking efficient measures if the actual key interest rate risk indicators approach their critical and/or threshold levels.

The sensitivity of the consolidated statement of profit and loss reflects the effect of the acceptable changes in interest rates on the Bank's net interest income for one year determined based on the floating rate on non-trading financial assets and financial liabilities held at reporting date.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Interest rate risk (continued)

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss.

31 December 2020					
Currency	Interest rate basis	Increase in basis points	Effect on profit before tax	Decrease in basis points	Effect on profit before tax
UAH	NBU	+100	(76,179)	-100	76,179
UAH	UIRD	+100	3,216	-100	(3,216)
USD	LIBOR	+75	(105,428)	-75	105,225
USD	UIRD	+75	3,284	-75	(3,284)
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+75	8,489	-75	(8,489)
Other	LIBOR	+75	135	-75	(135)
Total			(166,483)		166,280

31 December 2019					
Currency	Interest rate basis	Increase in basis points	Effect on profit before tax	Decrease in basis points	Effect on profit before tax
UAH	NBU	+100	–	-100	–
USD	LIBOR	+75	(87,705)	-75	87,705
EUR	LIBOR	+75	–	75	–
EUR	Euribor	+75	6,741	-75	(6,741)
Other	LIBOR	+75	107	-75	(107)
Other	Euribor	+75	–	-75	–
Total			(80,857)		80,857

To assess the possible effects of the acceptable changes in interest rates, the equity sensitivity on investment securities with fixed rate measured at fair value through other comprehensive income and classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used with the following assumptions: +/-200 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in foreign currencies. As at 31 December 2020, the total effect of changes on the Bank's equity is: UAH (2,699,437) thousand / UAH 2,699,437 thousand (31 December 2019: UAH (1,057,528) thousand / UAH 1,057,528 thousand).

Sensitivity of net gain/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as at 31 December 2020 in terms of effects of acceptable changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (660,921) thousand / UAH 660,921 thousand (31 December 2019: UAH (832,206) thousand / UAH 832,206 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Risk management (continued)

Currency risk (continued)

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- ▶ Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) key credit risk indicators;
- ▶ Permanent monitoring of actual key currency risk indicators;
- ▶ Taking efficient measures if the actual key currency risk indicators approach their critical and/or threshold levels.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2020 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated statement of profit and loss. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss or equity, while a positive amount reflects a net potential increase.

Currency	31 December 2020		31 December 2019	
	Change in currency rate, %	Effect on profit before tax	Change in currency rate, %	Effect on profit before tax
UAH/USD	+9.50%	64,896	+9.00%	(1,052,478)
UAH/EUR	+11.50%	(1,007)	+11.00%	20,058
Total		63,889		(1,032,420)
UAH/ USD	-9.50%	115,983	-9.00%	1,970,474
UAH/EUR	-11.50%	1,007	-11.00%	(20,058)
Total		116,990		1,950,416

Operational risk

The Bank creates an effective operational risk management system to ensure stable and continuous operation of the Bank, interaction of the Bank's divisions at all organisational levels on operational risk management and implementation of operational risk management culture.

To build an effective operational risk management system, the Bank's organisational structure is set up based on "three defence lines" model.

The Bank ensures the implementation and continuous support of the processes of operational risk identification, assessment, monitoring, reporting, control and minimisation. To identify and assess the operational risk, the Bank uses mandatory and additional tools in accordance with the requirements of the National Bank of Ukraine and best practices on operational risk management. The Bank assesses operational risk with regard to its interrelation and impact on other risks inherent in the Bank's activities.

The Bank manages the uninterrupted activities to reduce the risks of violations of the Bank's stable operation, its processes, IT resources, personnel and engineering infrastructure systems to an acceptable level, plans measures to restore their functioning in case of unforeseen circumstances.

To ensure the implementation of operational risk management culture at all organisational levels, the Bank continuously trains employees and provides consulting support to obtain sufficient knowledge on risk management by them, including for the correct and timely identification, analysis, taking measures and reporting on operational risk management.

The Bank is constantly working on improving the operational risk management system, including the implementation/ compliance with regulations of the National Bank of Ukraine, with regard to international standards and recommendations for operational risk management.

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities

Levels of the fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as shown below:

31 December 2020					
Fair value measurement applied					
		Quoted market prices (Level 1)	Valuation based on assumptions confirmed by observable data (Level 2)	Valuation based on assumptions not confirmed by observable data (Level 3)	Total
Valuation date					
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2020	–	38,539	–	38,539
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2020	–	–	29,008,521	29,008,521
Investment securities at fair value through other comprehensive income:					
Ukrainian state bonds	31 December 2020	–	13,877,469	–	13,877,469
Corporate bonds	31 December 2020	–	341,329	–	341,329
Municipal bonds	31 December 2020	–	302,122	–	302,122
Corporate shares	31 December 2020	–	–	22,603	22,603
Derivative financial assets	31 December 2020	–	108,231	–	108,231
Investment property	1 December 2020	–	–	1,143,451	1,143,451
Buildings	1 December 2020	–	–	1,752,183	1,752,183
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2020	–	81,219	–	81,219
Derivative financial liabilities	31 December 2020	–	1,123	–	1,123
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2020	4,127,654	45,785,289	–	49,912,943
Amounts due from credit institutions	31 December 2020	–	331,621	–	331,621
Loans to customers	31 December 2020	–	–	47,897,910	47,897,910
Investment securities at amortised cost	31 December 2020	–	45,122,082	–	45,122,082
Other assets	31 December 2020	–	141,000	–	141,000
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31 December 2020	–	16,008,768	–	16,008,768
Amounts due to credit institutions	31 December 2020	–	26,119,028	–	26,119,028
Amounts due to customers	31 December 2020	–	115,497,652	–	115,497,652
Eurobonds issued	31 December 2020	19,391,412	–	–	19,391,412
Subordinated debt	31 December 2020	4,488,981	–	–	4,488,981
Other liabilities	31 December 2020	–	1,488,166	–	1,488,166

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

31 December 2019					
Fair value measurement applied					
	Valuation date	Quoted market prices (Level 1)	Valuation based on assumptions confirmed by observable data (Level 2)	Valuation based on assumptions not confirmed by observable data (Level 3)	Total
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31 December 2019	–	15,201	–	15,201
Investment securities at fair value through profit or loss:					
Ukrainian state bonds	31 December 2019	–	25,731,949	–	25,731,949
Investment securities at fair value through other comprehensive income:					
Ukrainian state bonds	31 December 2019	–	22,254,733	–	22,254,733
Corporate bonds	31 December 2019	–	361,226	–	361,226
Corporate shares	31 December 2019	–	–	17,940	17,940
Investment property	31 December 2019	–	–	1,035,586	1,035,586
Buildings	1 December 2017	–	–	1,396,116	1,396,116
Liabilities measured at fair value					
Amounts due to customers in precious metals	31 December 2019	–	53,156	–	53,156
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2019	5,132,055	28,337,880	–	33,469,935
Loans and deposits, other amounts due from credit institutions	31 December 2019	–	240,971	–	240,971
Loans to customers	31 December 2019	–	–	52,604,116	52,604,116
Other assets	31 December 2019	–	199,604	–	199,604
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	31 December 2019	–	21,825,762	–	21,825,762
Amounts due to customers	31 December 2019	–	76,556,752	–	76,556,752
Eurobonds issued	31 December 2019	28,166,079	–	–	28,166,079
Subordinated debt	31 December 2019	5,573,947	–	–	5,573,947
Other liabilities	31 December 2019	–	606,528	–	606,528

Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income

The fair value of investment securities at fair value through profit or loss is determined using the valuation model the inputs of which are both observable on the market (exchange rate, coefficients of zero coupon yield curve on Ukrainian state bonds in UAH (Nelson-Siegel model), interest rates) and unobservable (historical exchange rate volatility).

The fair value of investment securities at fair value through other comprehensive income (excluding shares) is determined by quotations on the securities market or in accordance with the internal method of measuring the fair value of securities.

The value of shares is determined using models that include only unobservable inputs, including assumptions about the future financial performance of an investee.

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities (continued)

Derivative financial instruments

The fair value of derivative financial instruments is determined in accordance with the internal method of measuring the fair value of derivative financial instruments.

Fair value of financial assets and financial liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2020			31 December 2019		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>
Financial assets						
Cash and cash equivalents	49,912,943	49,912,943	–	33,469,935	33,469,935	–
Amounts due from credit institutions	331,621	331,621	–	240,971	240,971	–
Loans to customers	48,608,320	47,897,910	(710,410)	53,285,804	52,604,116	(681,688)
Investment securities at amortised cost	45,174,610	45,122,082	(52,528)	–	–	–
Other assets	141,000	141,000	–	199,604	199,604	–
Financial liabilities						
Amounts due to the National Bank of Ukraine	16,008,768	16,008,768	–	–	–	–
Amounts due to credit institutions	26,119,028	26,119,028	–	21,825,762	21,825,762	–
Amounts due to customers	115,499,889	115,497,652	2,237	76,568,754	76,556,752	12,002
Eurobonds issued	18,537,152	19,391,412	(854,260)	26,553,076	28,166,079	(1,613,003)
Subordinated debt	4,341,176	4,488,981	(147,805)	5,429,914	5,573,947	(144,033)
Other liabilities	1,488,166	1,488,166	–	606,528	606,528	–
Total unrecognised change in unrealised fair value			<u>(1,762,766)</u>			<u>(2,426,722)</u>

The following describes the methodologies and assumptions used to determine fair values for the financial instruments that are not recorded at fair value in the annual consolidated financial statements.

Assets fair value of which approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that their carrying values approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing the market interest rates at the date when they were first recognised with the current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market interest rates for debts with similar credit risk and maturity. For listed debt issued the fair values are calculated based on quoted market prices. For listed securities issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value

As at 31 December 2020, Ukrainian state bonds with indexed value measured at fair value through profit or loss have been transferred from Level 2 to Level 3 of the hierarchy of securities at fair value through profit or loss due to significant impact of the historical volatility of UAH/USD exchange rate in the Garman – Kohlhagen model used in the calculation when determining the fair value of Ukrainian state bonds with indexed value.

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	<i>At 1 January 2020</i>	<i>Gains/(losses) recognised in the consolidated statement of profit and loss</i>	<i>Gain recognised in the consolidated statement of comprehen- sive income</i>	<i>Transfer from Level 2 to Level 3</i>	<i>Purchases</i>	<i>Settlements</i>	<i>At 31 December 2020</i>
Investment securities at fair value through profit or loss	–	(63,771) ^(a)	–	29,342,952	–	(270,660) ^(g)	29,008,521
Investment securities at fair value through other comprehensive income	17,940	699 ^(b)	4,663	–	–	(699) ^(h)	22,603
Investment property	1,035,586	(107,012) ^(c)	–	–	853 ^(e)	–	1,143,451
Buildings	1,396,116	(8,579) ^(d)	342,478	–	5 010 ^(f)	–	1,752,183
Total assets	2,449,642	52,519	347,141	29,342,952	5,863	(271,359)	31,926,758

	<i>At 1 January 2019</i>	<i>Gains/(losses) recognised in the consolidated statement of profit and loss</i>	<i>Gain recognised in the consolidated statement of comprehen- sive income</i>	<i>Purchases</i>	<i>Settlements</i>	<i>At 31 December 2019</i>
Investment securities at fair value through other comprehensive income	16,603	394 ^(b)	1,337	–	(394) ^(h)	17,940
Investment property	1,153,243	(117 657) ^(c)	–	–	–	1,035,586
Buildings	1,415,253	(25,196) ^(d)	–	6,059 ^(f)	–	1,396,116
Total assets	2,585,099	(142,459)	1,337	6,059	(394)	2,449,642

(a) Losses in the amount of UAH 63,771 thousand include: UAH 372 944 thousand of revaluation of investment securities at fair value through profit or loss included in "Net gains/(losses) from investment securities at fair value through profit or loss" and UAH 309,173 thousand of accrued interest income included in "Interest income on investment securities at fair value through profit or loss" (2019: none).

(b) Accrued dividends in the amount of UAH 699 thousand included in "Other income" (2019: accrued dividends in the amount of UAH 394 thousand included in "Other income").

(c) Gain from revaluation of investment property in the amount of UAH 107,012 thousand included in "Other income" (2019: loss from revaluation of investment property in the amount of UAH 117,657 thousand included in "Other operating expenses").

(d) Gain in the amount of UAH 8,579 thousand includes: gain from revaluation of buildings in the amount of UAH 34,854 thousand included in "Other income" and expenses in the amount of UAH 26 275 thousand included in "Depreciation and amortisation" (2019: expenses in the amount of UAH 25,196 thousand included in "Depreciation and amortisation").

(e) Purchases in the amount of UAH 853 thousand include transfers from repossessed pledged property to investment property (2019: none).

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

- (f) Purchases in the amount of UAH 5,010 thousand include transfers from capital investments to property and equipment (2019: purchases in the amount of UAH 6,059 thousand include transfers from capital investments to property and equipment).
- (g) Settlements in the amount of UAH 270,660 thousand include: repayments in the amount of UAH 270,660 thousand (2019: none).
- (h) Settlements in the amount of UAH 699 thousand include: repayments in the amount of UAH 699 thousand (2019: repayments in the amount of UAH 394 thousand).

Gains or losses on level 3 assets at fair value included in the profit or loss for the reporting period comprise:

	2020		
	Realised gains	Unrealised gains/(losses)	Total
Investment securities at fair value through profit or loss	270,660	(334,431)	(63,771)
Investment securities at fair value through other comprehensive income	699	4,663	5,362
Investment property	–	107,012	107,012
Buildings	–	8,579	8,579
Total	271,359	(214,177)	57,182

	2019		
	Realised gains	Unrealised gains/(losses)	Total
Investment securities at fair value through other comprehensive income	394	1,337	1,731
Investment property	–	(117,657)	(117,657)
Buildings	–	(25,196)	(25,196)
Total	394	(141,516)	(141,122)

The tables below show the quantitative information as at 31 December 2020 and 31 December 2019 about significant unobservable inputs used for the fair valuation of assets classified as those of Level 3 of the fair value hierarchy:

At 31 December 2020	Carrying amount	Valuation technique	Unobservable parameter	Range of parameter values
Investment securities at fair value through other comprehensive income	22,603	Discounted cash flows	Expected profitability	12.5%
Investment securities at fair value through profit or loss	29,008,521	Garman – Kohlhagen model	Historical UAH/USD exchanged rate volatility	26.41%
<i>Investment property:</i>				
- real estate	618,978	Comparative, combination with income approach	sqm	UAH 1.1 thousand – UAH 52.8 thousand
- land	524,473	Comparative, comparing the sale prices of similar land plots	are	UAH 1.7 thousand – UAH 1,969.8 thousand
<i>Buildings</i>				
- real estate	1,748,326	Comparative, income approach	sqm	UAH 1 thousand – UAH 30 thousand
- land	3,857	Comparative	are	UAH 48 thousand – UAH 352 thousand

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

<i>At 31 December 2019</i>	<i>Carrying amount</i>	<i>Valuation technique</i>	<i>Unobservable parameter</i>	<i>Range of parameter values</i>
Investment securities at fair through other comprehensive income	17,940	Discounted cash flows	Expected profitability	19.2%-20.4%
<i>Investment property:</i>				
- real estate	532,286	Comparative, combination with income approach	sqm	UAH 1 thousand – UAH 43 thousand
- land	503,300	Comparative	are	UAH 2 thousand – UAH 1,800 thousand
<i>Buildings</i>				
- real estate	1,392,776	Comparative, income approach	sqm	UAH 1 thousand – UAH 29 thousand
- land	3,340	Comparative	are	UAH 110 thousand – UAH 286 thousand

Sensitivity of Level 3 measured at fair value to possible changes in the inputs used

If the historical exchange rate volatility increases/decreases by 1 percentage point the fair value of investment securities at fair value through profit or loss would increase by UAH 69,050 thousand / decrease by UAH 66,516 thousand as at 31 December 2020.

The Bank assumes the impact of changes in exchange rate volatility as at 31 December 2020 when measuring the fair value of investment securities at fair value through profit or loss at +1.8 percentage points. The effect of such changes in the exchange rate volatility on Ukrainian state bonds with indexed value is 126,369 thousand and will result in profit increase.

If the market value of 1 sqm of real estate / 1 hectare of land plot increases/decreases by 10 percentage points, the fair value of buildings and investment property would increase/decrease by UAH 175,218 thousand and UAH 114,345 thousand, respectively, as at 31 December 2020.

(thousands of Ukrainian hryvnia, unless otherwise stated)

28. 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 26 for the Bank's contractual undiscounted repayment obligations.

	31 December 2020			31 December 2019		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Assets						
Cash and cash equivalents	49,912,943	–	49,912,943	33,469,935	–	33,469,935
Amounts due from credit institutions	93,298	276,862	370,160	20	256,152	256,172
Loans to customers	14,965,888	33,642,432	48,608,320	20,228,694	33,057,110	53,285,804
Investment securities:						
- at fair value through profit or loss	3,840,599	25,167,922	29,008,521	–	25,731,949	25,731,949
- at fair value through other comprehensive income	4,966,932	9,576,591	14,543,523	12,784,910	9,848,989	22,633,899
- at amortised cost	24,868,503	20,306,107	45,174,610	–	–	–
Tax assets	–	250,331	250,331	–	246,882	246,882
Non-current assets held for sale	22,241	–	22,241	–	–	–
Investment property	–	1,143,451	1,143,451	–	1,035,586	1,035,586
Property and equipment	–	1,967,759	1,967,759	–	1,616,461	1,616,461
Intangible assets	–	51,984	51,984	–	59,173	59,173
Deferred income tax asset	–	1,175,372	1,175,372	–	1,463,771	1,463,771
Other assets	646,060	–	646,060	546,692	–	546,692
Total	99,316,464	93,558,811	192,875,275	67,030,251	73,316,073	140,346,324
Liabilities						
Amounts due to the National Bank of Ukraine	500,000	15,508,768	16,008,768	–	–	–
Amounts due to credit institutions	2,075,995	24,043,033	26,119,028	4,603,338	17,222,424	21,825,762
Amounts due to customers	114,991,367	589,741	115,581,108	75,918,978	702,932	76,621,910
Eurobonds issued	4,779,391	13,757,761	18,537,152	979,166	25,573,910	26,553,076
Subordinated debt	108,057	4,233,119	4,341,176	162,793	5,267,121	5,429,914
Provision for credit-related commitments	135,531	–	135,531	49,062	–	49,062
Other liabilities	1,796,864	6,752	1,803,616	946,504	2,871	949,375
<i>Including lease commitments</i>	<i>539</i>	<i>6,752</i>	<i>7,291</i>	<i>3,135</i>	<i>2,871</i>	<i>6,006</i>
Total	124,387,205	58,139,174	182,526,379	82,659,841	48,769,258	131,429,099
Net amount	(25,070,741)	35,419,637	10,348,896	(15,629,590)	24,546,815	8,917,225

The maturity analysis does not reflect the historical stability of current accounts. Such accounts are closed during longer period than one specified in the tables above. These balances are included to amounts payable within one year.

Amounts due to customers include term deposits of individuals. In accordance with the Ukrainian law, the Bank is obliged to return term deposit on maturity date specified in the deposit agreement. The return of term deposit on customer's request prior to the date of maturity or occurrence of other events specified in the agreement could be done only cases provided for by the deposit agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2020:

	<i>Assets at fair value through other comprehensive income</i>	<i>Assets at fair value through profit or loss</i>	<i>Assets at amortised cost</i>	<i>Total</i>
Cash and cash equivalents	–	–	49,912,943	49,912,943
Amounts due from credit institutions	–	38,539	331,621	370,160
Loans to customers	–	–	48,608,320	48,608,320
Investment securities:				
- at fair value through profit or loss	–	29,008,521	–	29,008,521
- at fair value through other comprehensive income	14,543,523	–	–	14,543,523
- at amortised cost	–	–	45,174,610	45,174,610
Other financial assets	–	108,231	141,000	249,231
Total	14,543,523	29,155,291	144,168,494	187,867,308

Assets by measurement categories as at 31 December 2019:

	<i>Assets at fair value through other comprehensive income</i>	<i>Assets at fair value through profit or loss</i>	<i>Assets at amortised cost</i>	<i>Total</i>
Cash and cash equivalents	–	–	33,469,935	33,469,935
Amounts due from credit institutions	–	15,201	240,971	256,172
Loans to customers	–	–	53,285,804	53,285,804
Investment securities:				
- at fair value through profit or loss	–	25,731,949	–	25,731,949
- at fair value through other comprehensive income	22,633,899	–	–	22,633,899
Other financial assets	–	–	199,604	199,604
Total	22,633,899	25,747,150	87,196,314	135,577,363

As at 31 December 2020, all financial liabilities of the Bank were accounted for at amortised cost, except the attracted gold-denominated deposits and derivative financial liabilities accounted for at FVPL (31 December 2019: all financial liabilities of the Bank were accounted for at amortised cost, except the attracted gold-denominated deposits accounted for at FVPL).

30. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if they are under common control, or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

Related parties may enter into the transactions, which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with entities controlled, directly or indirectly, or significantly influenced by the Ukrainian Government and with the key management personnel.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Related party transactions (continued)

The outstanding balances as at 31 December 2020 and 2019 and related income and expense for the years ended 31 December 2020 and 2019, are as follows:

	<i>Key management personnel</i>	
	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans to customers, gross	1,491	153
Less: allowance for impairment	(20)	(1)
Loans to customers, net	1,471	152
Other assets	–	5
Current accounts	7	6,434
Time deposits	1,006	19,701
Amounts due to customers	1,013	26,135
Other liabilities	10	23

	<i>Key management personnel</i>	
	<i>2020</i>	<i>2019</i>
Interest income on loans	98	23
Interest expense on customer deposits	(338)	(1,008)
Commission income	13	14
Translation differences	(1,838)	4,007

In 2020, the aggregate remuneration and other benefits paid to key management personnel amount to UAH 77,069 thousand (UAH 167 thousand of payments to the non-state pension fund) (2019: UAH 75,682 thousand (UAH 802 thousand of payments to the non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of Ukraine and entities controlled, either directly or indirectly, or significantly influenced by the state.

The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, transactions with securities, cash and settlement transactions.

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2020 are disclosed below:

<i>Client</i>	<i>Sector</i>	<i>Cash and cash equivalents</i>	<i>Loans to customers</i>	<i>Amounts due to the NBU</i>	<i>Amounts due to customers</i>	<i>Guarantees issued</i>
Client 1	State entities	–	–	–	6,850,351	–
Client 2	State entities	–	–	–	1,634,972	–
Client 3	Finance	14,487,474	–	16,008,768	–	–
Client 4	Extractive industry	–	4,262,727	–	5,419,423	–
Client 5	Extractive industry	–	505,223	–	–	–
Client 6	Agriculture and food industry	–	–	–	5,610,690	–
Client 7	Power engineering	–	5,045,250	–	–	–
Client 8	Mechanical engineering	–	1,796,436	–	1,419,874	479,268
Client 9	Mechanical engineering	–	–	–	–	111,966
Client 10	Transport and communications	–	1,896,652	–	–	–
Client 11	Transport and communications	–	–	–	1,607,746	–
Client 12	Trade	–	895,351	–	–	478,703
Client 13	Trade	–	–	–	–	892,093
Client 14	Road construction	–	1,002,859	–	–	–
Client 15	Professional, scientific and technical activities	–	–	–	890,637	–
Other	–	–	–	–	11,825,344	36,745

*(thousands of Ukrainian hryvnia, unless otherwise stated)***30. Related party transactions (continued)**

Balances with government-related entities which are individually significant in terms of the carrying value as at 31 December 2019 are disclosed below:

<i>Client</i>	<i>Sector</i>	<i>Cash and cash equivalents</i>	<i>Loans to customers</i>	<i>Amounts due to customers</i>	<i>Guarantees issued</i>
Client 1	State entities	–	–	4,041,851	–
Client 2	State entities	–	–	1,049,756	–
Client 16	State entities	–	–	614,338	–
Client 6	Agriculture and food industry	–	–	10,970,272	–
Client 17	Agriculture and food industry	–	720,824	–	–
Client 3	Finance	8,748,919	–	–	–
Client 7	Power engineering	–	4,581,405	–	–
Client 4	Extractive industry	–	4,337,341	–	–
Client 8	Mechanical engineering	–	2,103,673	–	542,352
Client 9	Mechanical engineering	–	–	–	282,719
Client 10	Transport and communications	–	2,308,319	–	–
Client 13	Trade	–	–	1,001,638	609,862
Client 12	Trade	–	–	–	506,954
Client 18	Trade	–	–	–	49,770
Client 19	Professional, scientific and technical activities	–	538,546	–	–
Other	–	–	1,030,327	6,702,779	–

During the year ended 31 December 2020, the Bank recorded UAH 1,711,023 thousand of interest income under significant transactions with government-controlled entities (2019: UAH 2,320,402 thousand), including interest income of UAH 372,379 thousand under transactions with the NBU deposit certificates with maturity up to 90 days (2019: UAH 77,189 thousand) of interest income and UAH 798,540 thousand (2019: UAH 1,161,189 thousand) of interest expenses.

As at 31 December 2020 and 2019, the Bank's investments in debt securities issued by the Government or the government-controlled entities were as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Investment securities at fair value through profit or loss	29,008,521	25,731,949
Investment securities at fair value through other comprehensive income	14,235,447	22,629,191
Investment securities at amortised cost	45,174,610	–

Carrying amount of Ukrainian state bonds included into investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income is disclosed in Note 11.

During the year 2020, the Bank recognised UAH 2,942,823 thousand of interest income on transactions with Ukrainian state bonds (2019: UAH 3,312,464 thousand) and UAH 899,756 thousand of interest income on transactions with other investment securities (2019: UAH 253,734 thousand).

31. Capital adequacy

The Bank manages its exposures to ensure that it maintains an adequate capital level to cover the external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the externally imposed capital requirements and maintains strong credit ratings and proper capital ratios in order to support its business activities and maximise the value to the shareholder.

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

31. Capital adequacy (continued)

NBU capital adequacy ratio

The Bank's regulatory capital adequacy ratio was as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Main capital	10,515,081	7,259,391
Additional capital, calculated	4,534,514	6,432,082
Additional capital included in calculation of total capital (limited to main capital)	4,534,514	6,432,082
Total regulatory capital	15,049,595	13,691,473
Risk weighted assets	64,669,917	67,763,579
Main capital adequacy ratio	16.26%	10.71%
Regulatory capital adequacy ratio	23.27%	20.2%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, and Tier 2 capital (Additional capital) consisting of asset revaluation reserve, current profit, subordinated debt and retained earnings. For regulatory capital calculation purposes, the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios computed in accordance with the Basel Capital Accord 1988 were as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Tier 1 capital	9,188,109	7,944,342
Tier 2 capital, calculated	4,577,301	4,945,054
Tier 2 capital, included in calculation of total capital	4,577,301	4,945,054
Total equity	13,765,410	12,889,396
Risk weighted assets	64,466,993	66,009,562
Tier 1 capital adequacy ratio	14.3%	12.0%
Total capital adequacy ratio	21.4%	19.5%