

**PUBLIC JOINT-STOCK COMPANY
JOINT STOCK BANK “UKRGASBANK”**

Management report

Financial statements

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

Translation from Ukrainian

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Management report

Independent auditor's report

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Management Report (Report on Management) of JSB “UKRGASBANK”

1. The probable prospects for further development of JSB “UKRGASBANK” (hereinafter referred to as the Bank, too)

The Bank performs in accordance with the Measures of Strategic Reform of the Public Banking Sector (Strategic Principles) (hereinafter referred to as the Measures), Strategy of JSB “UKRGASBANK” for 2019-2021 (hereinafter referred to as the Strategy), Main Areas of Activity of JSB “UKRGASBANK” for 2020-2023 (hereinafter referred to as the Areas).

The Strategy of the Bank foresees the establishment of the investment-attractive bank with maximum value and further withdrawal of the State from the capital of the Bank by way of privatization. The Bank shall focus its efforts on the strengthening of strong sides and position of the Bank on the market aiming at application of new possibilities in business, with this ensuring the sustainable level of profitability as compared with the best players at the market.

In November 2019, the Board of the International Finance Corporation (hereinafter referred to as the IFC), which is a part of the World Bank Group, adopted the decision to grant an equity convertible loan to JSB “UKRGASBANK”.

On 25 January 2021, the Loan Agreement was signed between the Ministry of Finance of Ukraine, the International Finance Corporation and JSB “UKRGASBANK” to provide a loan of EUR 30 million. The loan shall be provided for a period of five years to finance energy efficiency and renewable energy projects. The loan will create the conditions for the Bank’s transformation, as IFC will be able to convert the loan into equity.

Considering the challenges posed by the spread of coronavirus infection COVID-19 pandemic and the introduction of quarantine restrictions, the Bank plans to maintain its positions in three key business areas, specifically: small and medium businesses, corporate banking, retail and alternative sales channels.

Small and Medium Business

It is planned to increase the customer’s base on the account of the development of alternative sales channels, introduction of the digital solutions, development of transaction banking, optimization of the credit processes, improvement of the business analytics, creation of the targeted client products and programs, increasing attention to the micro segment, activating the existing customer base.

Corporate Business

Today, the corporate banking is the largest segment of the Bank in terms of the business scope. The Bank will direct its activities to the increasing of the share of the private sector and to reducing of the share of public sector enterprises. In corporate segment, the Bank shall also develop the transaction banking by way of increasing the scopes of transactions with the use of documentary letters of credit, guarantees/reserved letters of credit, documentary collection, and trade credit agreements, etc.

Retail Business and Alternative Sales Channels

The Bank plans to increase the customer base by way of attracting the economically active population of working age. Digital solutions shall be introduced, including the Open Banking Concept. On the account of own processing center, there is a possibility of performing prompt adjustments and targeting of card products. Synergy with small and medium business and corporate banking for the pay roll programs is planned.

2. Information on the Development of JSB “UKRGASBANK”

As of 1 January 2021, 73 banks were performing in Ukraine, out of them 33 banks were the banks with foreign capital. JSB “UKRGASBANK” is a part of the bank group with the State share. It ranks the 4th as per the amount of assets.

In 2020, the banks received 41.3 billion UAH of net profit, which is 29% less as compared with the similar period of the previous year (the profit for 2019 amounted to 58.4 billion UAH). The coronavirus crisis worsened the financial condition of the banks, but less significantly than predicted at the beginning. During 2020, out of 73 solvent banks, 65 banks were profitable and received the net profit of 47.7 billion UAH. Despite the general decline in business activity, Ukraine’s banking sector remains highly profitable. According to the results of 2020, the operating profitability of banks was high, and the reflected credit losses were not excessive. Operating income before changes in reserves for assets transactions in 2020 exceeded the same amount last year by 8% (163 billion UAH versus 151 billion UAH). Thus, the decrease in the financial result of the banking system in 2020 was influenced by allocations to reserves (more by 177% than in 2019). And this was a consequence of a number of banks recognizing the deterioration in asset quality due to the financial difficulties of borrowers caused by the coronavirus crisis.

Decrease of the business activity during quarantine and declining demand for banking services had a negative impact on banks’ incomes at the beginning of quarantine measures. However, after a short-term decline, the growth of non-interest income resumed and it amounted to a total of 9% for the year, including net commission income increased by 2.6 billion UAH (+ 6%) and mainly due to the growth of non-cash transactions. Net interest income in 2020 increased by 7% as compared with 2019 (84.4 billion UAH versus 78.9 billion UAH), which was a consequence of lowering the cost of funding (the interest expenditures in 2020 reduced by 11.1 billion UAH). At the same time, the yield on interest-bearing assets decreased at a slower pace and caused a decrease in interest income by 4%.

As of 1 January 2021, 278 operating Sales Points of JSB “UKRGASBANK” have been represented in 162 settlements of Ukraine for the services of the customers.

The assets of the Bank as of 1 January 2021 amounted to 142.7 billion UAH, growing up during 2020 by 23.6 billion UAH or by 20%.

As of 1 January 2021:

- Credit portfolio of the customers – 47.5 billion UAH, including the following:
 - Credit portfolio of the corporate business 37.4 billion UAH;
 - Credit portfolio of the small and medium business constitutes 6.9 billion UAH;
 - Credit portfolio of the retail business constitutes 3.2 billion UAH;
- Customer’s funds – 126.5 billion UAH, including the following:
 - Portfolio of the corporate customers’ funds constitutes 85.3 billion UAH;
 - Portfolio of the small and medium business customers’ funds constitutes 11.6 billion UAH;
 - Portfolio of the retail business’ funds constitutes 29.6 billion UAH.

Portfolio of the securities as of 1 January 2021 constituted 56.0 billion UAH, having increased during 2020 by 25.6 billion UAH or 84%.

The Bank actively attracted the funding from international financial institutions. Thus, as of 1 January 2021, the portfolio of assets of international financial institutions constituted 3.2 billion UAH, having increased during 2020 by 0.7 billion UAH.

During 2020, the Bank actively developed trade finance operations. The portfolio of these operations as of 1 January 2021 amounted up to 14.9 billion UAH, including open letters of credit for 3.5 billion UAH, received letters of credit for 2.0 billion UAH, securities provided for 6.2 billion UAH, securities received for 1.7 billion UAH, instruments of own liabilities for 1.5 billion UAH.

In the result of 2020, the Bank made the profit of 411 million UAH.

As of 1 January 2021, the number of the customers of the Bank constituted 2,342 thousand, including: 2,264 thousand – customers of retail business, 71.5 thousand – customers of small and medium business, 6.8 thousand – corporate customers.

As of 1 January 2021, nearly 2,061 thousand payment cards issued by JSB “UKRGASBANK” are in circulation, out of them about 482 thousand are active. During 2020, the Bank actively continued developing own multi-platform mobile application “ECO Bank” (the virtual card was introduced, as well as the possibility to pay the fines for the traffic rules violations, payments with any details, UnionPay and PROSTIR (IIPOCTIP) cards became available), the number of users of which as of the end 2020 exceeded 506 thousand.

Measures of Strategic Reform of the State Banking Sector (strategic principles), Main Areas of JSB “UKRGASBANK” Activity for 2020-2023 and JSB “UKRGASBANK” Strategy for 2019-2021 established the following strategic objectives:

- Become the leading “Eco-bank” in Ukraine and ensure the funding of the projects in the area of energy effectiveness up to 30% of demand;
- Get prepared for privatization within the frames of implementation of Memorandum of Understanding related to support of privatization (sale) of the Bank.

During 2020, the limits for funding of five projects in terms of renewable energy sources, with the general capacity of 21,044 MWt for 7.33 million EUR and 2.2 million UAH, out of which:

- Three projects – network solar power plants (those selling the generated electricity at the “green” tariff), with the general capacity of 20,984 MWt for the amount of 7.33 million EUR;
- Two projects – solar power plants for own consumption (those allowing the company to reduce its own costs for the purchase of electricity from the network by replacing it, in part or in full, through its own generation), with the capacity of 0.06 MWt for the amount of 2.2 million UAH.

As of 1 January 2021, the credit portfolio of eco-products and other obligations in credit provision of the Bank constitute 19.6 billion UAH.

The Bank complies with the set goals for the withdrawal of the State from capital. During 2020, all the indicative conditions of the Memorandum of Understanding between the Ministry of Finance of Ukraine, the Bank and the International Financial Corporation with respect to privatization (sale) of the Bank as related to the conditions depending on the Bank. At the beginning of 2021 the Loan Agreement was signed between the Ministry of Finance of Ukraine, the International Finance Corporation and JSB “UKRGASBANK” with respect to the provision of a loan of EUR 30 million. The loan shall be provided for a period of five years to finance energy efficiency and renewable energy projects. The loan will create the conditions for the transformation of the Bank, as the International Finance Corporation will be able to convert the loan into equity.

3. Information related to conclusion of derivatives or the performance of transactions with respect to derivative securities by the Bank, if it affects the valuation of its assets, liabilities, financial situation and profits or expenses of the Bank, in particular the information about the following:

During 2020, the Bank did not conclude the derivatives or performed the transactions with respect to derivative securities.

1) Task and policy of the Bank related to the management of the financial risks, including the policy related to insurance of each main type of forecasted operation to which hedging operations are used

In the course of its ordinary activities, the Bank uses various derivative financial obligations, including forward contracts and swaps in foreign exchange markets, which are concluded predominantly with Ukrainian banks. Derivative instruments are initially recognized at fair value at the date of the contract conclusion, after which they are revalued at fair value. All derivative instruments are recognized as assets when their fair value is positive and as liabilities if their fair value is negative.

Changes in the fair value of derivative instruments are recognized immediately as a result of transactions with derivative financial instruments of the Profit and Loss Statement and other comprehensive income. The Bank evaluates and calculates the fair value of forward contracts and recognizes its material changes in profit or loss.

Though the Bank performs the trade operations with derivative instruments for the purposes of hedging, these instruments do not meet the criteria of hedging accounting.

Embedded derivative financial instruments:

Derivative financial instruments embedded into the composition of other financial instruments or other combined agreements accounted as individual derivatives if their characteristics and risks are not in tight connection with the main agreement, and the main agreement does not refer to category of financial instruments assessed at fair value through profits or losses.

2) *The Bank's exposure to price risks, credit risk, liquidity risk and/or cash flow risk*

The Bank determines (declares) aggregate risk appetite by setting aggregate risk margins and risk appetite for individual risks by setting the risk margins for significant risks defined by the current Risk Management Strategy in JSB "UKRGASBANK":

- Credit risk;
- Liquidity risk;
- Interest risk;
- Market risks;
- Operations risk;
- Compliance risk;
- Ecologic risk;
- Social risk.

4. **Report on Corporate Governance**

1) Reference to:

- Own Corporate Governance Code the Bank is guided by:
The decision of General Meeting of Shareholders dated 25 April 2017 (Minutes of Meeting No. 1) approved the Corporate Governance Code of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK", to determine the basic principles of corporate governance in JSB "UKRGASBANK", structure of corporate governance, loyalty and responsibility of the Bank's officials, internal control system, information disclosure and transparency in the Bank's activities, environmental liability, etc.
JSB "UKRGASBANK" in its activity strictly adheres to the Code of Corporate Governance of the PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK", published at the web-address: https://www.ukrgasbank.com/upload/file/kodeks_ku.pdf.
- Code of corporate governance of the stock exchange, association of legal entities or other code of corporate governance that the Bank has voluntarily decided to apply;
The Bank does not apply code of corporate governance of the stock exchange, association of legal entities or other code of corporate governance.

- All the relevant information with respect to the practices of corporate governance applied over the requirements established by the current legislation:
Corporate government in JSB “UKRGASBANK” is performed in accordance with the requirements of the effective legislation of Ukraine, and considering the Recommendations related to the practice of application of the legislation in the area of the corporate governance, approved by the decision of the National Commission on Securities and Fund Market dated 12 March 2020 No. 118, and Methodic recommendations related to corporate governance in the banks of Ukraine approved by decision of Management Board of National Bank of Ukraine dated 3 December 2018 No. 814-р/ПН (as amended).
- 2) In case the Bank deviated from the provisions of the Corporate Governance Code, clarifications shall be provided on what parts of corporate governance code are violated and what the reasons are for such violations. In case the Bank made the decision not to apply certain provisions of the corporate governance code described in para 2 and para 3 item 1 of this part, the reasons for that shall be grounded:
The Bank does not violate from the provisions of the Code of Corporate Governance of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” approved by the decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 25 April 2017 (Minutes of Meeting No. 1).

3) ***Information on the General Meeting of Shareholders***

General Meeting Type	Annual	Extraordinary
	X	
Date	7 July 2020	
Quorum of Meeting	99.61966% for Issues 1-15, except Issue 16, on which there is no quorum, due to the fact that shareholders who are the holders of preferred shares, which are voting on this issue did not register to participate in the General Meeting of Shareholders of JSB “UKRGASBANK”.	
Description	<p><u>List of Issues:</u></p> <ol style="list-style-type: none"> 1. On approval of the report and conclusions of Audit Commission of JSB “UKRGASBANK” for 2019 and making decision following the review of this report. 2. On approval of annual results of activity (annual report) of JSB “UKRGASBANK” for 2019, review of Supervisory Board of JSB “UKRGASBANK” report for 2019, and review of report (conclusions) of external independent auditor (audit company), and approval of measures based on the results of review of the report. 3. On decision making following the review of the report by Supervisory Board of JSB “UKRGASBANK” for 2019. 4. On decision making following the review of the report by Management Board of JSB “UKRGASBANK” for 2019. 5. On approval of the report on remuneration of the members of Supervisory Board of JSB “UKRGASBANK” for 2019. 6. On compensation of losses and distribution of profit of JSB “UKRGASBANK” following the results of the Bank’s activity in 2019. 7. On approval of the amount of annual dividends. 8. On approval of the report on implementation of the main areas of JSB “UKRGASBANK” performance for 2018-2019. 9. On determination of the main areas of JSB “UKRGASBANK” performance for 2020-2023. 10. On introduction of changes into the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 11. On introduction of changes into the Regulations on Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 12. On introduction of changes into the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 13. On introduction of changes into the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” by way of approval of its new revision. 14. On advisability introduction of changes into the Policy of Remuneration to the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”. 15. On cancellation of otherwise acquired shares and reduction of the total number of shares issued by JSB “UKRGASBANK”. 16. On reduction of the authorized capital of JSB “UKRGASBANK” by the amount of the total nominal value of the canceled shares. 	

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<p><u>Persons who submitted proposals to the list of issues of the Agenda:</u> Limited Liability Company “Asset Management Company “ACTIVE INVEST” (Identification Code 37004959), acting on behalf of and in the interests of the Mutual Venture Non-Diversified Closed-End Investment Fund “ACTIVNYI” (USRJII Code 2331528).</p> <p><u>Results of consideration of the issues of the Agenda:</u></p> <p>Issue 1</p> <p>1. Approve the report and conclusions of Audit Commission of JSB “UKRGASBANK” on the results of audit of financial and economic activity of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” following the results of 2019 fiscal year and reliability of annual financial statements for 2019 attached.</p> <p>Issue 2</p> <p>1. Approve the annual results of activity (annual report) of JSB “UKRGASBANK” for 2019 attached, composed of the following:</p> <ul style="list-style-type: none">• Report of Supervisory Board of JSB “UKRGASBANK” for 2019.• Management Report (Report on Management) for 2019.• Annual Financial Statements of JSB “UKRGASBANK” for 2019. <p>2. Take notice of the report (conclusions) of internal independent auditor (audit company) “Ernst and Young Audit Services” LLC following the results of audit of financial accounting of JSB “UKRGASBANK” for the year that ended on 31 December 2019, including the conclusion of auditor.</p> <p>Issue 3</p> <p>1. Recognize the performance of Supervisory Board of JSB “UKRGASBANK” during 2019 effective and meeting the interests of the shareholders, depositors, investors and promoting the further growth of JSB “UKRGASBANK”.</p> <p>Issue 4</p> <p>1. Recognize the performance of Management Board of JSB “UKRGASBANK” during 2019 effective and meeting the interests of the shareholders, depositors, investors and promoting the further growth of JSB “UKRGASBANK”.</p> <p>Issue 5</p> <p>1. Approve the Report on Remuneration for the Members of Supervisory Board of JSB “UKRGASBANK” for 2019, attached.</p> <p>Issue 6</p> <p>1. Establish the following procedure for distribution of the profit and loss coverage:</p> <ol style="list-style-type: none">1.1. To allocate 10% of the amount of profit constituting 128,899,549.47 UAH to the reserve fund of JSB “UKRGASBANK”.1.2. To cover the losses of previous years with the remaining amount of profit being 1,160,095,945.27 UAH. <p>Issue 7</p> <p>1. Considering the restrictions established by Article 31 of the Law of Ukraine <i>On Joint Stock Companies</i>, do not pay dividends for the shares of JSB “UKRGASBANK” based on the results of 2019.</p> <p>Issue 8</p> <p>1. Approve the report on the implementation of the main areas of the activity of JSB “UKRGASBANK” for 2018-2019, attached.</p> <p>Issue 9</p> <p>1. Determine the main areas of the activity of JSB “UKRGASBANK” for 2020-2023 in accordance with the annex.</p> <p>Issue 10</p> <p>1. Introduce the changes into the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019 (Minutes of Meeting No. 1), and considering the presented changes approve the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached, and provide it for approval and state registration following the procedure established by the effective legislation of Ukraine.</p> <p>Issue 11</p> <p>1. Introduce the changes into the Regulations on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019 (Minutes of Meeting No. 1), and considering the presented changes approve and put into effect from the date of registration by the State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 7 July 2020, the Regulations on General Meeting of Shareholders of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p>
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	<p>Issue 12</p> <p>1. Introduce the changes into the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019 (Minutes of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 7 July 2020, the Regulations on Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p> <p>Issue 13</p> <p>1. Introduce changes into the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 19 April 2019 (Minutes of Meeting No. 1), and considering the presented changes approve and make effective from the date of registration by State Registrar of the Articles of Association of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of General Meeting of Shareholders of JSB “UKRGASBANK” dated 7 July 2020, the Regulations on Shares and Dividend Policy of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised, attached.</p> <p>Issue 14</p> <p>1. Recognize the Policy on Remuneration for Members of the Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK”, as amended on 19 April 2019 (Minutes of Meeting No. 1) relevant, and as such not requiring amending.</p> <p>Issue 15</p> <p>No decision adopted.</p> <p>Issue 16</p> <p>There is no quorum on this issue, due to the fact that shareholders who own preferred shares voting on this issue have not registered to participate in the General Meeting of Shareholders.</p> <p><u>General Description of the Decisions Adopted by the General Meeting of Shareholders:</u> in accordance with the requirements of the effective legislation of Ukraine, the agenda of the General Meeting of Shareholders conducted on 7 July 2020, included all the necessary issues. These issues were considered duly, except Issue 16 with respect to reduction of the authorized capital of JSB “UKRGASBANK” by the total nominal value of cancelled shares, for which there was no quorum, also, due to changes in legislation and in order to comply with their requirements, amendments were made to the internal regulation instruments of the Bank.</p>
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What body did register the shareholders for participation in general meeting of shareholders in the reported year?		
	Yes	No
Registration Committee assigned by the persons who called for the general meeting	X	
Shareholders		X
Depositary institution		X
Other (specify)		
What body did control the status of registration of shareholders or their representatives for participation in the reported year (if controlled)?		
	Yes	No
National Commission for Securities and Fund Market	X	
Shareholders collectively owning more than 10 percent of voting shares		X
What was the method of voting for the agenda issues at the general meeting in the reported year?		
	Yes	No
Card raising		X
Bulletins (secret ballot)	X	
Hand raising		X
Other (specify)		
Whether the general meeting of shareholders in the form of absentee voting was held in the reporting year?		
	Yes	No
		X

4) Information on Supervisory Board and Management Board.

Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	
Shrenik Dhirajlal Davda	X		<p>As the Chairperson of Supervisory Board he is responsible for all the areas of Supervisory Board performance.</p> <p>Chairs: Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board – from 14 May 2019 the latest assignment; before that, he was elected as the Chairperson of this Committee by the previous composition of Supervisory Board from 24 September 2018 until termination of the authorities of Supervisory Board; Member of:</p> <p>The Audit Committee of Supervisory Board of JSB “UKRGASBANK”;</p> <p>The Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK”.</p>
Artem Valentynovych Shevaliov		X	<p>as Deputy to Chairperson of Supervisory Board bears responsibility for all the areas of the Bank’s activity, in case of the Chairperson absence; as well as the issues of risk management, raising funds by the Bank on the international capital market through “green” bonds issue mechanism; with respect to issues related to the reputation incident management.</p> <p>Chairs:</p> <p>Risk Management Committee of Supervisory Board of JSB “UKRGASBANK” – starting with 14 May 2019 (the last appointment); before this, he was elected as Chairperson of this Committee by previous composition of Supervisory Board from 24 September 2018 until termination of powers of Supervisory Board;</p> <p>Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market Through “Green” Bonds Issue Mechanism – starting with 14 May 2019 (the last appointment); before this, he was elected as Chairperson of this Committee by previous composition of Supervisory Board from 24 September 2018 until termination of powers of Supervisory Board;</p> <p>Member of:</p> <p>Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”;</p> <p>Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board.</p>
Denys Valeriyovych Ulyutin		X	<p>The functional obligations include issues of the internal, external audit of the Bank; determination of remuneration, assignments, corporate governance.</p> <p>Does not chair any committee of Supervisory Board.</p> <p>Member of:</p> <p>The Audit Committee JSB “UKRGASBANK” Supervisory Board;</p> <p>Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance.</p>

Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	
Teymour Mahmedovych Bagirov	X		<p>The functional obligations include issues of internal, external audit of the Bank, determination of remuneration, assignments, corporate governance; attraction of investments and realization of strategy of development of the Bank; raising funds by the Bank on the international capital market through “green” bonds issue mechanism; conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; consideration of the issues related to the management of reputation incident.</p> <p>Chairs.</p> <p>Audit Committee of Supervisory Board of JSB “UKRGASBANK” from 14 May 2019 (the last appointment); before this, he was elected as Chairperson of this Committee by previous compositions of Supervisory Board from 11 March 2016 until termination of powers of Supervisory Board; from 18 May 2017 until termination of powers of Supervisory Board; from 24 September 2018 until termination of powers of Supervisory Board;</p> <p>Committee on attraction of investments and realization of strategy of development of JSB “UKRGASBANK” – starting with 14 May 2019 (the last appointment); before this, he was elected as Chairperson of this Committee by previous compositions of Supervisory Board from 18 May 2017 until termination of powers of Supervisory Board; from 24 September 2018 until termination of powers of Supervisory Board;</p> <p>Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” from 14 May 2019 (the last appointment); before this, he was elected as Chairperson of this Committee by previous compositions of Supervisory Board from 30 November 2015 until termination of powers of Supervisory Board; from 24 September 2018 until termination of powers of Supervisory Board;</p> <p>Member of:</p> <p>Committee of Supervisory Board of JSB “UKRGASBANK” on raising funds by the Bank on the international capital market through “green” bonds issue mechanism;</p> <p>Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance;</p> <p>Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board.</p>

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Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	
Yuri Oleksandrovych Blashchuk	X		<p>The functional obligations include issues related to the management of the reputation incident; the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; attraction of investments and realization of development strategy of JSB “UKRGASBANK”; attraction of the investments an implementation of the strategy of JSB “UKRGASBANK” development; raising funds by JSB “UKRGASBANK” on the international capital market through “green” bonds issue mechanism; issues of the development of the information technologies of JSB “UKRGASBANK”. Chairs: Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board. Member of: Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”; Committee on conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”; Committee of Supervisory Board on raising funds by the Bank on the international capital market through “green” bonds issue mechanism; IT Development Committee of JSB “UKRGASBANK” Supervisory Board.</p>
Oksana Yulianivna Volchko	X		<p>The functional obligations include issues of internal, external audit of the Bank; raising funds by JSB “UKRGASBANK” on the international capital market through “green” bonds issue mechanism; determination of remuneration, assignments, corporate governance; issues of the development of information technologies of JSB “UKRGASBANK”. Does not chair any committee of Supervisory Board. Member of: The Audit Committee of JSB “UKRGASBANK” Supervisory Board; The Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board; The Committee of Supervisory Board on raising funds by the Bank on the international capital market through “green” bonds issue mechanism; IT Development Committee of JSB “UKRGASBANK” Supervisory Board.</p>

Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	
Slawomir Roman Konias	X		<p>The functional obligations include issues of the development of information technologies of JSB “UKRGASBANK”; risk management, conduction of the tender for the sale of right of claim under loan agreements and deeds of undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p> <p>Chairs: IT Development Committee of Supervisory Board of JSB “UKRGASBANK”.</p> <p>Member of: Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”; Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p>
<p>Were the meetings of Supervisory Board conducted? General description of decisions made; procedures applied during the adoption of the decisions by Supervisory Board; determination of how the performance by Supervisory Board stipulated the changes in the financial and economic performance of JSB “UKRGASBANK”.</p>	<p>During 2020, 56 meetings of Supervisory Board took place, 354 issues reviewed during them. Supervisory Board of JSB “UKRGASBANK” in 2020 made decisions, in particular, related to the following:</p> <ul style="list-style-type: none"> The Report of the Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK” Supervisory Board on the results of activity during 2019; the Report of the Audit Committee of JSB “UKRGASBANK” Supervisory Board on the results of work during II half year of 2019 and 2019 as a whole; the Report of the Committee of the Supervisory Board for Raising Funds by JSB “UKRGASBANK” on the International Capital Market Through “Green” Bonds Issue Mechanism on the results of work during 2019; the Report of the IT Development Committee of JSB “UKRGASBANK” Supervisory Board on the results of work during 2019; the Report of Committee on Remuneration, Assignments and Corporate Governance of JSB “UKRGASBANK” Supervisory Board on the results of work during 2019; the Report on the remuneration for the Chairperson and the members of Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” for 2019; the Report on the assessment of the efficiency of the performance of Supervisory Board of JSB “UKRGASBANK” during 2019; the Report on the Assessment of the Key Employees of JSB “UKRGASBANK” during 2019; the Strategy of Development of the Information Security of JSB “UKRGASBANK” for 2020-2021; the Strategy of Management of Non-performing Liabilities and Foreclosed Property of JSB “UKRGASBANK” for 2020-2022 as revised; the Strategy of Risk Management in JSB “UKRGASBANK” as revised; Operational Plan of Implementation of the Strategy of Management of Non-performing Liabilities and Foreclosed Property of JSB “UKRGASBANK” for 2021; Risk Appetite Statement of JSB “UKRGASBANK” for 2020 as revised; the Policy of Compliance Risk Management in JSB “UKRGASBANK”; the Policy of Prevention of the Conflict of Interest in PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” as revised; the Policy of Stress-testing in JSB “UKRGASBANK” as revised; the Policy of risk of liquidity management in JSB “UKRGASBANK” as revised; the Policy of interest risk management in JSB “UKRGASBANK” as revised; the Policy of Market Risk Management in JSB “UKRGASBANK” as revised; the Policy of Operations Risk Management of JSB “UKRGASBANK” as revised; the Regulations on Investment Policy of JSB “UKRGASBANK”; the Regulations on the Department of the Information Policy, Marketing and Advertisement of JSB “UKRGASBANK” as revised; the Policy of the Information Security of JSB “UKRGASBANK” as revised; the Credit Policy of JSB “UKRGASBANK” for 2021; the Program of Finance of JSB “UKRGASBANK” for 2021; the Regulations on the Operations Department of JSB “UKRGASBANK” as revised; the Regulations on the procedure of work with the partners and agents to attract/retain the customers of corporate business for service in JSB “UKRGASBANK”; the Regulations on the Department of the Investment Activity and Authorized Capital of JSB “UKRGASBANK” as revised; the Regulations on the Department of the Treasury Transactions of JSB “UKRGASBANK” as revised; the Regulations on the Issuance of the Own Securities by PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”; the Regulations on the Department of the Banking Security of JSB “UKRGASBANK”; the Regulations on the Investment Policy of JSB “UKRGASBANK”; the Regulations on performance /termination by JSB “UKRGASBANK” of investments into the authorized capital and shares of other legal entities; the Regulations on the Department of VIP Corporate Customers of JSB “UKRGASBANK” as revised; the Regulations on the business trips and other expenditures of the members of Supervisory Board / Audit Commission of JSB “UKRGASBANK”; the Regulations on the Department of the Information policy, marketing and advertisement of JSB “UKRGASBANK” as revised; the Regulations on the Corporate Governance Service of JSB “UKRGASBANK” as revised; 		

Translation from Ukrainian original

Supervisory Board Composition			
Personal Composition of Supervisory Board	Independent member of Supervisory Board	Dependent member of Supervisory Board	Functional Obligations of the Member of Supervisory Board
	Yes	No	
			<ul style="list-style-type: none"> • Review of Report of the Internal Audit Department for 2019; Audit Conclusion “Audit of the Process of Organization and Performance of Financial Monitoring” with proposals; • Organization and convening of the annual General Meetings of Shareholders of JSB “UKRGASBANK”; • Organization of conduction of the assessment of the efficiency of JSB “UKRGASBANK” Supervisory Board performance during 2019; • Assessment of the key employees of JSB “UKRGASBANK” for 2019; • Concurrence of performance of the assets transactions of the Bank in accordance with the established limits of authority; • Approval of changes to organization structure of Head Office of JSB “UKRGASBANK”; • Approval of the regulations on structural divisions of JSB “UKRGASBANK”; • Organization and conduction of the competitive selection of candidates for taking the office of the Chairperson of Management Board of JSB “UKRGASBANK”; • Implementation of the requirements of the effective legislation related to the establishment of the amount of payroll of the managers, members of the executive bodies and remuneration for the members of supervisory boards of the entities of the public sector of the economy for the period of quarantine; • Approval of decisions of Management Board of JSB “UKRGASBANK” related to sale of real estate objects of JSB “UKRGASBANK”; • Selection of the successful tenderer of the subjects of audit activity aiming at obtaining the services in mandatory audit of financial statements of JSB “UKRGASBANK” for 2020-2021, approval of the conditions of the agreement to be awarded to the successful tenderer, establishment of the amount for remuneration for the services provision; • Information provision with respect to the measures undertaken by JSB “UKRGASBANK” aiming at prevention to the spread of the coronavirus infection COVID-19; • Quarterly review: <ul style="list-style-type: none"> • Reports of Management Board of JSB “UKRGASBANK”; • Reports of the Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”; • Reports on the results of the monitoring of the efficiency of the internal control system of JSB “UKRGASBANK”; • Evaluation Report of Compliance Risk of JSB “UKRGASBANK”; • Reports of Corporate Secretary of JSB “UKRGASBANK”. <p>Procedure of decision adoption (in accordance with the Articles of Association and the Regulations on Supervisory Board of the Bank):</p> <p>At the meeting of Supervisory Board, each member of Supervisory Board has one vote. Members of Supervisory Board participate in the meetings of Supervisory Board only in person, the transfer of rights by the members of Supervisory Board to participate in the meetings of Supervisory Board by issuing powers of attorney or otherwise is not allowed.</p> <p>At the meeting of Supervisory Board in praesentia, including by electronic means (video and voice conferences, etc.), the decisions of Supervisory Board are made by a simple majority of votes of members of Supervisory Board who participate in the meeting and have the right to vote, except as provided in the Articles of Association and the Regulations on Supervisory Board, which provide for a different number of votes for decision-making.</p> <p>Decisions of Supervisory Board in the case of in absentia meeting of Supervisory Board (by poll) are taken by a simple majority of votes of Supervisory Board members (more than 50 percent of votes) established by the Articles of Association, except as provided by the Articles of Association and the Regulations on Supervisory Board, providing a different number of votes for decision-making.</p> <p>If the number of votes “for” and “against” is equal, the decision for which the Chairperson of Management Board voted shall be made.</p>

Translation from Ukrainian original

Committees of Supervisory Board			
	Yes	No	Personal Composition of the Committee
For the issues of audit	X		1. T.M. Bagirov – Chairperson of the Committee 2. D.V. Ulyutin 3. Sh.D. Davda 4. O.Yu. Volchko
For the issues of assignments		X	
For the issues of remuneration		X	
Others (indicate)	Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”		1. A.V. Shevaliov – Chairperson of the Committee 2. Yu.O. Blashchuk 3. S.R. Konias
	Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance.		1. Sh.D. Davda – Chairperson of the Committee 2. O.Yu. Volchko 3. T.M. Bagirov 4. D.V. Ulyutin
	Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy of JSB “UKRGASBANK”		1. T.M. Bagirov – Chairperson of the Committee 2. A.V. Shevaliov 3. Yu.O. Blashchuk 4. Sh.D. Davda
	Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.		1. T.M. Bagirov – Chairperson of the Committee 2. Yu.O. Blashchuk 3. S.R. Konias
	Committee of the Supervisory Board for Raising Funds by JSB “UKRGASBANK” on the International Capital Market through “Green” Bonds Issue Mechanism.		1. A.V. Shevaliov – Chairperson of the Committee 2. T.M. Bagirov 3. O.Yu. Volchko 4. Yu.O. Blashchuk
	Information Technologies Development Committee of Supervisory Board of JSB “UKRGASBANK”.		1. S.R. Konias – Chairperson of the Committee 2. Yu.O. Blashchuk 3. O.Yu. Volchko
	Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board.		1. Yu.O. Blashchuk – Chairperson of the Committee 2. T.M. Bagirov 3. A.V. Shevaliov

Whether the meetings of the committees of the Supervisory Board were held, the general description of the decisions made at them; in the case of evaluating the work of committees, information on their competence and effectiveness shall be provided.	<p>Audit Committee during 2020 conducted 10 meetings in absentia (by survey method), to discuss 30 issues, to provide 26 recommendations to Supervisory Board, to give 7 errands, out of which two – to the chairperson of the Audit Committee; two – to an authorized person for performance of the organizational measures related to the conduction of the tender for selection of the auditors aiming at obtaining the services in the mandatory audit of financial statements of JSB “UKRGASBANK”; three – to Management Board of JSB “UKRGASBANK”.</p> <p>In accordance with the Regulations on Audit Committee approved by decision of Supervisory Board dated 8 August 2019 (Minutes of Meeting No. 16), and requirements of legislation the competence of the Committee included the following during 2020:</p> <ol style="list-style-type: none"> 1. Performance of the monitoring of integrity of financial information provided by the Bank, in particular, review of compliance and consistency of the accounting methods used by the Bank; 2. Performance of supervision over the activity of internal audit division and ensuring of assessment of efficiency and quality of this division’s performance; 3. Determination of the procedure of work of the internal audit division and control over its activity; 4. Provision to Supervisory Board of recommendations related to selection, assignment, re-assignment or dismissal of the manager of internal audit division; 5. Preliminary review of organizational structure, calculation of the need for resources, including human resources, for the internal audit division and submission of proposals to the Bank’s Supervisory Board with respect to their approval; 6. Preliminary consideration and submission of recommendations to Supervisory Board of the Bank with respect to approval of the Regulations on the internal audit division of the Bank, the plan of internal audit of the Bank and the budget of internal audit division of the Bank; 7. Monitoring and reviewing the effectiveness of the internal audit division of the Bank, which include evaluating the performance of the head of the internal audit division, providing recommendations to Supervisory Board of the Bank on approving the remuneration of the head and staff of the internal audit division;
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8. Analysis and discussion of internal audit division reports on the results of the audits conducted and periodic reports on the work of the internal audit division and, in cases determined by the effective legislation and internal regulation instruments of the Bank, provision of recommendations on these issues to Supervisory Board of the Bank;
9. Submission to Supervisory Board of the Bank of proposals for taking measures to eliminate within the established terms deficiencies in the activities of the internal audit division identified by the National Bank of Ukraine;
10. Drafting the budget of Supervisory Board of the Bank and submitting them for approval to Supervisory Board;
11. Provision of recommendations to Supervisory Board on the selection and change of the external auditor (audit company), the terms of the contract with the auditor and the amount of remuneration for the auditor;
12. Independence and objectivity control of an external auditor (audit company) in accordance with International Standards on Quality Control, Audit, Review, Other Assurance and Related Services;
13. Discussion with the auditor (audit company) of the main issues arising from external audit of the Bank, any significant deficiencies found in the internal control system related to the financial reporting formation process;
14. Establishment and application of a formal policy definition, types of services not subject to the audit, that are excluded or admissible after review by the Committee or admissible without the recommendation of the Committee;
15. Review of the effectiveness of the external audit process and the speed of response of the Bank's executives to the recommendations provided in writing by the external auditor (audit company);
16. Investigation of the problems that may be the basis for any dismissal of the external auditor (audit company) and provide advice on any necessary actions;
17. Monitoring of the implementation by the Bank of accounting policies, effective qualitative accounting practices, including calculations and disclosure of financial statements;
18. Monitoring of the integrity of the Bank's financial statements and any formal statements concerning the Bank's financial results;
19. Verification of the necessary measures taken by the Bank's Management Board to remedy the shortcomings aimed at implementing the recommendations and conclusions of the internal and external auditors within the set deadlines;
20. Elimination of deficiencies in the internal control system, settlement of cases of non-compliance with policies, laws and regulations, as well as other problems identified by internal and external auditors of the Bank;
21. Reporting to Supervisory Board on the functions assigned to it. The Committee's report shall be submitted to Supervisory Board at least every six months; it should also include information on the existence / absence of comments regarding the independence of the external audit.

During 2020, the Audit Committee as a whole used the methods and procedures of activity set out in the Articles of Association of the Audit Committee, which made it possible to effectively organize the process of exercising the delegated powers.

Mr. T.M. Bagirov, Chairperson of the Committee, called meetings of Audit Committee in the form of in praesentia and in absentia (by correspondence voting), chaired them, determined the agendas, ensured their meeting, performed control over the timely distribution of materials related to agenda to the members of Audit Committee, organized the keeping minutes of Audit Committee meetings and their timely formalization, and bringing the decision made to the notice of Supervisory Board. For the effective performance of Audit Committee and comprehensive preparation for the making of justified decisions, the Chairperson and Members of the Committee actively interacted with the Management Board of the Bank, Ms. Ye.O. Liuta, external auditor – audit company TOV “Ernst and Young Audit Services”, and Supervisory Board.

It shall be noted, that in connection with the changes in the composition of the Audit Committee, during II half year of 2020 four meetings of the Audit Committee took place with 75% presence of Audit Committee members. The rest of meetings were conducted under 100% presence of Audit Committee members; this testifies to the responsible attitude of Audit Committee members to the fulfillment of their respective obligations and proper execution by the Chairperson of the correspondent authorities in organization of Audit Committee performance.

Besides, in order to meet the requirements of para 2 Part 6 Article 56 of the Law of Ukraine *On Joint Stock Companies*, it shall be noted that during 2020 there were no comments by Audit Committee to independence of external audit performance.

Risk Management Committee during 2020 conducted 14 meetings, three out of them in praesentia, including with the use of the electronic communication means (video and voice conferences), considered 56 issues, provided 55 recommendations to Supervisory Board, gave four errands, out of which one – to Management Board of the Bank, one – to Deputy Chairperson of Management Board of the Bank, CRO of the Bank, 2 – to the Chairperson of the Risk Management Committee of Supervisory Board of the Bank.

In accordance with the Regulations on Risk Management Committee approved by the decision of Supervisory Board dated 4 July 2019 (Minutes of Meeting No. 13), and requirements of effective legislation the competence of Risk Management Committee in 2020 included the following:

- Development, ensuring the development and/or participation in development of the internal banking documents, and regular revision of them aiming at updating and performance of the control over their introduction and meeting;
- Performance of the control over the introduction and meeting of the internal banking documents' requirements related to the system of risk management of the Bank;
- Performance of control over the state of implementation of measures as related to the prompt elimination of shortcomings in the functioning of the system of risk management, fulfillment of recommendations and comments presented by the internal audit division, external auditors, the NBU, and other surveillance bodies;
- Preliminary review of the draft strategy and policy of risk management, credit policy, procedure of performance of transactions with the persons related to the Bank, and other documents in the area of risk management presented for consideration and/or approval by Supervisory Board;
- Submission to Supervisory Board of proposals related to improvement of the risk management system;
- Performance of control over consideration of the business-model of the Bank and strategy of risk management of the Bank in the pricing / setting tariffs for the products of the Bank;
- Reporting to Supervisory Board as related to the functions imposed on the Committee, and preliminary review of the issues related to elimination of shortcomings, identified by the NBU and other bodies of state power and management, which within the competence perform the supervision over the activity of the Bank, by Internal Audit Division and audit company, following the results of the external audit, within the frames of performance by Supervisory Board of the control over the efficiency of functioning of the risk management system.

During 2020, the Committee used the methods and procedures of activities defined in the Regulations on Risk Management Committee; thus allowed effectively organizing the process of implementation of the authorities imposed.

The Chairperson of the Committee, Mr. A.V. Shevaliov, called for the meetings of the Committee in praesentia, including with the use of the electronic communication means (video and voice conferences), and in absentia (by survey method), chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely formalization and notification of the Supervisory Board of the decisions made.

For the purposes of effective performance of the Risk Management Committee and comprehensive preparation for the making of justified decisions, the Chairperson and members of the Committee actively interacted with Management Board of the Bank, the Risk Management Department, the Department of Compliance, the Internal Audit Department and Supervisory Board.

All meetings of the Risk Management Committee in 2020 took place with 100% presence of the members of the Committee, which testifies to the responsible attitude of the members of the Committee to the fulfillment of their obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

Committee of Supervisory Board of JSB "UKRGASBANK" on Remuneration, Assignments and Corporate Governance during 2020 conducted 15 meetings, out of which 13 in absentia (by survey method) and two in praesentia with the use of the electronic communication means (video and voice conferences), considered 30 issues, provided 29 recommendations to Supervisory Board, gave one errand to the Chairperson of the Committee of Supervisory Board of JSB "UKRGASBANK" on Remuneration, Assignments and Corporate Governance, Mr. Sh.D. Davda.

In accordance with the Regulations on the Committee of Supervisory Board of JSB "UKRGASBANK" on Remuneration, Assignments and Corporate Governance, approved by the decision of Supervisory Board dated 1 October 2019 (Minutes of Meeting No. 18), and the requirements of the effective legislation, the competence of the Committee during 2020 included the following:

- In the area of assignments:
 1. Development and periodical revision of the policy (internal regulations) of the Bank in the area of assignment;
 2. Determination and recommendation for approval by Supervisory Board of the Bank of the candidatures for taking the posts within the Management Board of the Bank, and in cases foreseen by the Articles of Association or internal documents of the Bank – other vacancies;
 3. Periodic assessment of the structure, size, composition and work of Management Board and provision of the recommendations to Supervisory Board related to any changes;
 4. Periodic assessment of the members of Management Board in terms of compliance with the qualification requirements and reporting on the matter to Supervisory Board of the Bank;
 5. Development of the Succession Plan for the positions of chairpersons and members of Supervisory Board of the Bank, submission of proposals to the shareholders with respect to the candidatures for the positions of members of Supervisory Board of the Bank in case it is foreseen by the internal regulations of the Bank;

Translation from Ukrainian original

	<ol style="list-style-type: none">6. Development of the Succession Plan for the positions of chairpersons and members of Management Board, provision of the availability in Management Board of the proper succession plan for the other persons performing managerial functions in the Bank;7. Submission to Supervisory Board of the Bank of recommendations related to the personal composition of each committee of Supervisory Board, and periodical rotation of the members of Supervisory Board of the Bank between the committees;8. Development and submission to Supervisory Board of the Bank in order to approve the rules (code) of conduct of the officials of the Bank, which in particular regulates the issues of conflicts of interests, confidentiality, fair business running, protection and proper use of the assets of the Bank, compliance with the requirements of the applicable legislation and the internal regulation instruments of the Bank, and the necessity to submit to Supervisory Board of the Bank the information on any known facts of violations from the legal requirements or ethic norms;9. Ensuring of conduction of the programs in orientation and training for the members of Supervisory Board and Management Board of the Bank, necessary for the efficient fulfillment by them of the respective obligations in the model of corporate governance introduced in the Bank; <ul style="list-style-type: none">• In the area of remuneration:<ol style="list-style-type: none">1. Submission to Supervisory Board of the Bank of recommendations related to the formation of the system of remuneration and ensuring the meeting by remuneration of the culture of risk management, Strategy of the Bank, approved Risk Appetite statement of the Bank, financial results and system of the internal control, and the requirements of the effective legislation of Ukraine aiming at consideration by Supervisory Board of the Bank during formation of the remuneration system of both the interests of the persons receiving the remuneration, and long-term interests of the participants of the Bank, investors and other interested parties;2. Development and periodical revision of the policy (internal regulations) of the Bank in the area of remuneration and performance of the assessment of introduction of such policy;3. Submission of proposals to the shareholders with respect to the remuneration for the members of Supervisory Board of the Bank, should it be foreseen by the internal regulations of the Bank;4. Submission of proposals to Supervisory Board of the Bank with respect to the remuneration for the members of Management Board of the Bank. Such proposals must refer to any forms of compensation, including in particular the fixed remuneration, remuneration based on the results of activity, retirement arrangements and compensation at dismissal. The proposals with respect to the schemes of remuneration based on the results achieved must be accompanied with the recommendations of the respective objectives and criteria of assessment;5. Submission of proposals to Supervisory Board of the Bank with respect to the individual remuneration to be provided to a member of Management Board, guaranteeing their compliance with the policy of remuneration accepted by the Bank, and their meeting the assessment of the work of the mentioned members;6. Submission of proposals to Supervisory Board of the Bank with respect to the forms and material conditions of the agreements and contracts for the members of Management Board;7. Submission of proposals to Supervisory Board of the Bank with respect to the key performance indices and organization of the procedures of the periodical assessment of their achievement by the members of Management Board of the Bank;8. Submission of the general recommendations to Management Board of the Bank with respect to the level and structure of remuneration for the persons performing the managerial functions. The Committee must study the policy of Management Board of the Bank with respect to selection and assignment of the persons performing the managerial functions in the Bank;9. Control of the level and structure of remuneration for the persons performing the managerial functions, based on the reliable information provided by Management Board of the Bank. If the Bank apply the mechanisms of incentives provision to the persons performing the managerial functions, and other employees of the Bank connected with the participation in the share capital of the Bank of such persons, the competence of the Committee also includes the following:<ul style="list-style-type: none">• Submission of proposals to Supervisory Board of the Bank with respect to the overall policy of the application of such schemes;• Determination of the scope of information provided in terms of this issue in the annual report;• Submission of proposals to Supervisory Board of the Bank with respect to the mechanisms of such incentives justifying such proposals.
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	<ul style="list-style-type: none"> • In the area of corporate governance: <ol style="list-style-type: none"> 1. Submission of proposals to Supervisory Board of the Bank with respect to ensuring the performance of effective arrangement of the corporate governance in the Bank; 2. Submission to Supervisory Board of the Bank of recommendations with respect to the performance of the assessment of efficiency of arrangement of the corporate governance in the Bank, and determination of its compliance with the size, peculiarities of the activity of the Bank, nature and scope of the banking and other financial services, profile of risk of the Bank, and system importance of the Bank; 3. Preparation of proposals and recommendations to Supervisory Board of the Bank with respect to the ensuring of measures undertaking by Supervisory Board of the Bank as related to the elimination of shortcomings and improvement of the arrangement of the corporate governance considering the results of the assessment of the efficiency of corporate governance arrangement in the Bank; 4. Assisting to Supervisory Board of the Bank in order to ensure the following: <ul style="list-style-type: none"> • Compliance of the Bank with the principle of transparency in the area of corporate governance; • Disclosure by the Bank of full and reliable information on the organization of its activity, including on its financial state, economic indices, material events, structure of ownership and management, aiming at assessment by the interested persons (users) of the efficiency of the management of the Bank by Supervisory Board and Management Board of the Bank; • Submission of proposals to Supervisory Board of the Bank with respect to the determination of the corporate values of the Bank and ensuring that the Bank's executives, heads of control units and other employees of the Bank are informed of the proposals, while other interested persons have the opportunity to get acquainted with them; • Performance of the monitoring of compliance with the Code of Corporate Governance of the Bank by the managers of the Bank and all the employees of the Bank, and submission of the relevant proposals to Supervisory Board of the Bank; • Preliminary review and submission to Supervisory Board of the Bank of recommendations with respect to the approval of the reports of the Corporate Secretary of the Bank; • Provision of the Committee's reports to Supervisory Board of the Bank with respect to the functions imposed on it. The report of the Committee shall be submitted to Supervisory Board at least once a year. <p>Any proposals for the assignment of officers of the Bank, the appointment of which falls within the competence of the Supervisory Board of the Bank as required by law or provided for in the Bank's Articles of Association, should be the subject to the prior approval by the Committee.</p> <p>The Committee might carry out a preliminary examination and consideration of other matters within the competence of Supervisory Board of the Bank, in the event of amendments to the Regulations or by a decision of Supervisory Board.</p> <p>The main tasks of the Committee included the following:</p> <ol style="list-style-type: none"> 1. Ensuring the availability and keeping up-to-date of internal regulation instruments regulating the issues of remuneration, assignments and corporate governance in the Bank; 2. Preliminary review of the drafts of internal regulation instruments of the Bank in the area of remuneration, assignments and corporate governance of the Bank; 3. Preparation of the materials for the meetings of Supervisory Board of the Bank and submission of the reports to Supervisory Board of the Bank in the areas belonging to the competence of the Committee. <p>During 2020, the Committee used methods and procedures of the activity, specified in the Regulations on Supervisory Board and the Regulations on the Committee on Remuneration, Assignments and Corporate Governance of JSB "UKRGASBANK" Supervisory Board. This allowed effectively organizing the process of realization of the authorities imposed.</p> <p>The Chairperson of the Committee, Mr. Sh.D. Davda, convened the meetings of the Committee, chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely formalization and notification provision to the Supervisory Board of the decisions made.</p> <p>It shall be noted, that due to the changes in the composition of the Committee, during II half of year two meetings of the Committee took place with 75% presence of the Committee's members. The rest of meetings were conducted under 100% presence of the Committee members; this testifies to the responsible attitude of the Committee's members to the fulfillment of their respective obligations and proper execution by the Chairperson of the correspondent authorities in organization of the Committee performance.</p> <p>For the effective performance of Committee and comprehensive preparation for the making of justified decisions, the Chairperson and Members of the Committee actively interacted with Supervisory Board.</p>
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Committee of Supervisory Board of JSB “UKRGASBANK” on attraction of investments and realization of development strategy during 2020 conducted six meetings, out of which five meetings in the form of absentee voting (by survey method), one in the form of praesentia with the use of the electronic communication means (video and voice conferences), considered eight issues, provided seven recommendations to Supervisory Board, gave three errands to the Chairperson of the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”, Mr. T.M. Bagirov.

In accordance with the Regulations on Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”, approved by the decision of Supervisory Board dated 1 March 2019 (Minutes of Meeting No. 3) and the requirements of the effective legislation, the competence of the Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK” in 2020 included the following:

1. Development and submission to Supervisory Board of the Bank for agreement of the main areas of the activity of the Bank;
2. Development and submission to Supervisory Board of the Bank for approval of the strategy (strategic plan) of the development of the Bank in accordance with the main areas of the activity, determined by the General Meeting of Shareholders, introduction of modifications into it;
3. Development and submission to Supervisory Board of the Bank for agreement and/or approval of other strategic documents of the Bank, introduction of modifications into them, within the competence of Supervisory Board of the Bank;
4. Monitoring of the implementation of the strategy (strategic plan) of the development of the Bank and submission to Supervisory Board of the Bank of the proposals based on the results of such monitoring performance;
5. Submission to Supervisory Board of the Bank of the proposals related to the following:
 - Investing in statutory (share) capital of other legal entities by joining the participants of the legal entities, proposals on termination of participation;
 - Establishment of limits of authority of Management Board of the Bank with regard to the investments in the statutory (share) capital of other legal entities by joining the participants of the legal entities, termination of participation;
6. Submission to Supervisory Board of the Bank of the proposals related to the implementation of the control over the actions undertaken in the main areas of the activity of the Bank, and the strategy (strategic plan) of the development of the Bank;
7. Preliminary review of the projects of potential attraction of the investments by the Bank, submitted to Supervisory Board for consideration and/or approval;
8. Submission to Supervisory Board of the proposals related to improvement of the processes of attraction of investments and implementation of the strategy of the Bank;
9. Cooperation with the international finance organizations and international investment society with regard to the attraction of investments by the Bank;
10. Cooperation with the international establishments and associations in the area of the green financing, sustainable development and counteraction to the climate changes within the frames of implementation of the Strategy of Development of JSB “UKRGASBANK” during 2019-2021;
11. Within the frames of performance of the activity by Supervisory Board of the Bank in the area of organization of attraction of the investments, and realization of the strategy of the Bank, preliminary consideration of the issues related to elimination of the shortcomings identified by the NBU, the National Securities and Stock Market Commission, and other bodies of the state authorities and power, which within the competence fulfill the surveillance over the performance of the Bank;
12. Submission of the reports by the Committee to Supervisory Board with respect to the functions imposed. The report of the Committee to Supervisory Board shall be submitted at least once a year.

During 2020, the Committee used methods and procedures specified in the Regulations on Supervisory Board and the Regulations on the Committee on Attraction of Investments and Realization of Development Strategy of JSB “UKRGASBANK”. This allowed effectively organizing the process of realization of the authorities imposed.

The Chairperson of the Committee, Mr. T.M. Bagirov, convened the meetings of the Committee in absentia (by survey method) and in praesentia, with the use of the electronic communication means (video and voice conferences), chaired them, defined the agendas, ensured its meeting, performed control over the timely distribution of materials as related to agenda to the members of the Committee, arranged the making minutes at the meetings of the Committee, their timely formalization and notification of the Supervisory Board of the decisions made.

It shall be noted, that during 2020, the meetings of the Committee were conducted under the condition of 100% presence of the Committee members; this testifies to the responsible attitude of Committee members to the fulfillment of their respective obligations and proper execution by the Chairperson of the correspondent authorities in organization of the Committee performance.

For the effective performance of Committee and comprehensive preparation for the making of justified decisions, the Chairperson and Members of the Committee actively interacted with Management Board and Supervisory Board.

Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through “Green” Bonds Issue Mechanism during 2020 conducted one meeting in absentia (by survey method), considered one issue, provided one recommendation to Supervisory Board.

In accordance with the Regulations on the Committee of Supervisory Board for Raising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism, approved by decision of Supervisory Board dated 17 July 2018 (Minutes of Meeting No. 19), the competence of the Committee includes:

1. Preparation of draft internal regulation instruments connected with the raising by the Bank of funds on the international capital market through “green” bonds issue mechanism and ensuring submission of them for review and approval by Supervisory Board of JSB “UKRGASBANK”;
2. Development of the criteria and procedure of competitive selection of councilor/organizer of “green” bonds issue and ensuring submission of them for review and approval by Supervisory Board of JSB “UKRGASBANK”;
3. Ensuring the organization and conduction of competitive selection of councilor/organizer of “green” bonds issue in accordance with the criteria and procedure of conduction of competitive selection approved by the Supervisory Board of JSB “UKRGASBANK”;
4. Based on the results of the work performed by councilor/organizer of “green” bonds issue, preparation of necessary documents, materials, other analytical information, ensuring their submission for review by Supervisory Board of the Bank, in order to making the relevant decision on raising funds by JSB “UKRGASBANK” at the international market of capital through “green” bonds issue mechanism;
5. Preparation of necessary documents and address to the international rating agencies with the request to provide the commercial proposals for establishment of necessary for the Bank credit ratings; based on the results of receipt from the rating agencies of the commercial proposals preparation for Supervisory Board of JSB “UKRGASBANK” of proposals related to engagement of relevant international rating agency, and ensuring the review of these proposals by Supervisory Board and making the decisions required;
6. Preparation of draft decisions of Supervisory Board for the issues related to raising funds by JSB “UKRGASBANK” at the international market of capital through “green” bonds issue mechanism and ensuring their submission for the consideration and approval by Supervisory Board of JSB “UKRGASBANK”.

During 2020, the Committee for Raising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism used the methods and procedures of activities defined in the Regulations on it; thus, it allowed effectively organizing the process of implementation of the authorities imposed.

The Chairperson of the Committee, A.V. Shevaliov, called for the meeting of the Committee for Raising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism, chaired it, determined the agenda, ensured its meeting, performed control over the timely distribution of materials related to agenda to the members of the Committee, organized the keeping minutes of the Committee meeting and their timely formalization, and bringing the decision made to the notice of Supervisory Board.

For the purposes of effective performance of the Committee for Raising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism and comprehensive preparation for making justified decisions, the Chairperson and members of the Committee actively interacted with the Management Board of the Bank, International Cooperation Department and Supervisory Board.

The meeting of the Committee for Raising the Funds on the International Capital Market through “Green” Bonds Issue Mechanism in 2020 took place with 100% presence of the members of the Committee, which testifies to the responsible attitude of the members of the Committee to the fulfillment of their obligations and proper implementation by the Chairperson of authorities in arrangement of the activity of the Committee.

Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” did not conduct meetings during 2020.

In accordance with the Regulations on the Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by decision of Supervisory Board of JSB “UKRGASBANK” dated 30 November 2015 (Minutes of Meeting No. 27), and the requirements of the effective legislation, the competence of the Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” included the determination of competitive principles for sale of right of claim under loan agreements and deeds of undertaking of the Bank.

Information Technologies Development Committee of Supervisory Board of JSB "UKRGASBANK" during 2020 conducted three meetings in praesentia with the use of the electronic communication means (video and voice conferences), considered 14 issues, provided one recommendation to Supervisory Board, gave one errand to the Chairperson of the Information Technologies Development Committee of Supervisory Board of JSB "UKRGASBANK", four errands to the Deputy Chairperson of Management Board of JSB "UKRGASBANK", Mr. S.V. Kharitich.

In accordance with the Regulations on the IT Development Committee of JSB "UKRGASBANK" Supervisory Board, approved by the decision of Supervisory Board dated 4 July 2019 (Minutes of Meeting No. 13), the competence of the Committee includes the following:

1. Preliminary consideration of the issues and preparation of proposals for Supervisory Board related to the strategic development and improvement of the information technologies of the Bank, in particular with regard to the digital automation of the processes, establishment of the digital strategy of the Bank;
2. Monitoring of the process of introduction of the digital technologies in the Bank and preparation of the relevant materials and reports for Supervisory Board in respect to these issues;
3. Analysis of the efficiency of IT-systems and processes in the Bank;
4. Analysis and evaluation of the resource base of the Bank (inclusive of the infrastructure of hardware and software, outsourcing, qualification training of the personnel, etc.);
5. Development of the draft decisions, internal regulation instruments, their preliminary consideration, undertaking of organizational, technical and other measures, related to the process of performance by Supervisory Board of the control of strategic development and improvement of the information technologies of the Bank, specified in Item 2.2 of the Regulations;
6. Revision of the existing informational system of management of the Bank as related to IT system and transactions of the Bank;
7. Provision to Supervisory Board of the Bank of recommendations related to the modifications within the frames of information panels and key indices of efficiency;
8. Quarterly revision of the financial indices related to IT systems and transactions of the Bank within the frames of realization of Item 2.2 of the Regulations;
9. Revision of the contractual conditions and obligations related to rendering of the services by the third parties in the area of IT systems and transactions of the Bank;
10. Monitoring of the reports of the internal and external auditors, connected with the informational technologies of the Bank, informational security and transactions;
11. Reporting by the IT Development Committee to Supervisory Board related to the functions imposed on the Committee.

During 2020, the IT Committee used methods and procedures specified in the relevant Regulations. This allowed effectively organizing the process of realization of the authorities imposed.

The Chairperson of the Committee, Mr. S.R. Konias, called meetings of the IT Development Committee in praesentia with the use of the electronic communication means (video and voice conferences), chaired them, determined the agenda, ensured its meeting, performed control over the timely distribution of materials related to agenda to the members of the Committee, organized the keeping minutes of the Committee meeting and the timely formalization of them, and bringing the decision adopted to the notice of Supervisory Board.

For the purposes of effective performance by the IT Development Committee and comprehensive preparation of the justified decisions, the Chairperson and the members of the Committee actively interacted with Management Board and Supervisory Board.

All meetings of the IT Committee during 2020 have taken place under 100% participation of the members of the Committee. This testifies of the responsible attitude of the members of the Committee to the fulfillment of their obligations and proper performance by the Chairperson of his authorities in organization of the Committee's performance.

Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board was established on 27 November 2019 following the decision of Supervisory Board of JSB "UKRGASBANK" dated 27 November 2019 (Minutes of Meeting No. 24) aiming at provision of assistance to Supervisory Board in the exercise of its powers related to the effective management of compliance risk, which also included reputational risks, the creation of an effective compliance function, the implementation of the Bank's main priority, which is to develop and implement measures to reduce compliance risk, which may damage the Bank's reputation or cause other adverse consequences.

The main tasks of the Committee include the preparation of the draft decisions, internal regulation instruments, undertaking of the organizational, technical and other measures related to the management of the reputation incident.

Reputation Incident Management Temporary Committee of JSB "UKRGASBANK" Supervisory Board conducted during 2020 four meetings, out of which – one meeting in praesentia with the use of the electronic communication means (video and voice conference) and three meetings in absentia (by survey method), considered five issues, provided four recommendations to Supervisory Board, gave two errands to the Chairperson of the Temporary Committee.

In total, during 2020, 53 meetings of the committees of Supervisory Board were conducted, at which 149 issues were considered, 97 recommendations to Supervisory Board were provided, and 22 errands given.

Committees of Supervisory Board of JSB “UKRGASBANK” during 2020 adopted the decisions, in particular, with respect to the following:

- Reports on the results of audits conducted by the Internal Audit Department; reports on the results of monitoring the implementation of audit recommendations;
- Development of the draft Budget of Supervisory Board of JSB “UKRGASBANK” for 2021; development of draft budgets of the Risk Management Department, Social and Environmental Risks Unit, Department of Compliance and Internal Audit Department of JSB “UKRGASBANK” for 2021;
- Organization of the tender for the selection of auditing entities in order to obtain services for the mandatory audit of financial statements of JSB “UKRGASBANK”;
- Proposals for the establishment of key performance indicators, their specific weight, the method of calculating the implementation of the KPI in determining the personal bonus for employees of the Internal Audit Department of JSB “UKRGASBANK”;
- Current profile of the Bank’s credit risk, liquidity risk, market and operational risk; the results of stress testing of credit, currency, interest, operational and liquidity risk; assessment of compliance risks of JSB “UKRGASBANK”;
- Assignment of CCO of JSB “UKRGASBANK” and authorization of CCO of JSB “UKRGASBANK” with the right of veto (ban) for the decisions of Management Board and collegial bodies of Management Board;
- Approval of relevant changes to the organizational structure of the Head Office of JSB “UKRGASBANK” and regulations on the relevant structural subdivisions of the Head Office for risk management and compliance;
- Preliminary consideration of draft internal regulation instruments in the area of the competence of the committees of Supervisory Board;
- Establishment of indicative values of key efficiency indicators for the Chairperson and members of Management Board of JSB “UKRGASBANK” and methodology of their calculation;
- Election of members of Management Board of JSB “UKRGASBANK” and approval of the terms of agreements to be concluded with members of Management Board of JSB “UKRGASBANK”;
- Organization and conduction of competitive selection of candidates for the position of the Chairperson of Management Board of JSB “UKRGASBANK”;
- Compliance with the requirements of the legislation related to the establishment of the amount of remuneration for managers, members of executive bodies and remuneration of members of supervisory boards of economic entities of the public sector of the economy for the period of quarantine;
- Preliminary review of the Risk Management Strategy of JSB “UKRGASBANK” as revised, the Strategy of Management of Non-performing Liabilities and Foreclosed Assets of JSB “UKRGASBANK” for 2020-2022 as revised; Operational plan for the implementation of the strategy for managing non-performing liabilities and foreclosed assets of JSB “UKRGASBANK” for 2021; Program of Finance of JSB “UKRGASBANK” for 2021; Credit Policy of JSB “UKRGASBANK” for 2021; Risk Appetite Statement of JSB “UKRGASBANK” for 2021, etc.

According to the decision of Supervisory Board of JSB “UKRGASBANK” dated 3 March 2021 (Minutes of Meeting No. 6) and in accordance with the Regulations on the Assessment of the effectiveness of Supervisory Board of the PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” (hereinafter referred to as the Regulations on Assessment, too), approved by the decision of Supervisory Board dated 9 April 2019 (Minutes of Meeting No. 8), an assessment of the effectiveness of Supervisory Board of JSB “UKRGASBANK” in 2020 was conducted, which, among other things, included an assessment of the effectiveness of the functions and powers of the Supervisory Board committees, including the effectiveness of methods and procedures of the performance of the committees of Supervisory Board.

In accordance with the requirements of paragraph 1.4 Section I of the Regulations on Evaluation, the evaluation of the overall efficiency of Supervisory Board, including its committees and individual evaluation of the members of Supervisory Board (each member of Supervisory Board) shall be conducted for members of Supervisory Board who have worked in Supervisory Board for at least three months. Members of Supervisory Board who have worked for less than three months shall not be the subject to this type of evaluation, which is reflected in the report on the evaluation of the Supervisory Board.

Since Mr. D.V. Ulyutin took the position of a member of Supervisory Board of JSB “UKRGASBANK” – a representative of the shareholder – the State of Ukraine on 2 December 2020, he did not participate in the Evaluation.

Translation from Ukrainian original

	<p>Following the results of the assessment conducted, presented in the Report on the Assessment of the Efficiency of JSB “UKRGASBANK” Supervisory Board Performance in 2020, approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 30 March 2021 (Minutes of Meeting No. 8), the effectiveness of functions and powers of Supervisory Board including the effectiveness of methods and procedures of the committees of Supervisory Board, was assessed, in general, as excellent. In particular, according to such allegations as:</p> <ul style="list-style-type: none"> • Committees of Supervisory Board significantly increase the efficiency of Supervisory Board; • Supervisory Board has the required number of committees and does not require the establishment of other committees, the composition of the committees is optimal and meets the needs of the Bank; • The powers of the committees of Supervisory Board of the Bank meet the needs of the Bank; • The process of interaction between the committees and Supervisory Board is built. • The number of committee meetings held and the issues addressed at them is adequate and meets the needs of the Bank. • The work of the committees of Supervisory Board is effective. The committees provide Supervisory Board with recommendations that allow for more informed decisions adopting, and that makes the meetings of Supervisory Board more organized and effective. The activities of the committees contributed to the fulfillment of the goals set by Supervisory Board. • The Committees regularly inform Supervisory Board about their activities and provide an annual report, etc.
Information about the performance by Supervisory Board and assessment of its performance	
<p>Assessment of performance by Supervisory Board</p>	<p>All members of Supervisory Board have degree in economics and fluent in English, have degree and/or experience in international relations (A.V. Shevaliov, T.M. Bagirov, Sh.D. Davda, S.R. Konias, Yu.O. Blashchuk, O.Yu. Volchko, D.V. Ulyutin); some members have degree and/or experience in the area of governmental finance and experience in corporate governance, in particular, experience as members of Supervisory Board (Sh.D. Davda, Yu.O. Blashchuk, A.V. Shevaliov, O.Yu. Volchko, T.M. Bagirov), all members of Supervisory Board have experience of work at leading positions in the state authority bodies and/or banks, the Chairperson of Supervisory Board has a degree in law (Sh.D. Davda), one member of Supervisory Board has an academic degree, candidate of economic science (Yu.O. Blashchuk).</p> <p>Following the decision of Supervisory Board of JSB “UKRGASBANK” dated 3 March 2021 (Minutes of Meeting No. 6), the assessment of the efficiency of Supervisory Board of JSB “UKRGASBANK” performance during 2020 was organized and conducted in accordance with the Regulations on the Assessment of the Efficiency of Performance of Supervisory Board of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” (hereinafter referred to as the Regulations on Assessment, too), approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 9 April 2019 (Minutes of Meeting No. 8).</p> <p>In accordance with the requirements of paragraph 1.4 Section I of the Regulations on Assessment, the assessment of the overall efficiency of Supervisory Board, including its committees and individual evaluation of the members of Supervisory Board (each member of Supervisory Board) shall be conducted for members of Supervisory Board who have worked in Supervisory Board for at least three months. Members of Supervisory Board who have worked for less than three months shall not be the subject to this type of assessment, which is reflected in the report on the evaluation of the Supervisory Board.</p> <p>Since Mr. D.V. Ulyutin took the position of a member of Supervisory Board of JSB “UKRGASBANK” – a representative of the shareholder – the State of Ukraine on 2 December 2020, he did not participate in the assessment.</p> <p>The evaluation, which included an assessment of the overall performance of Supervisory Board of JSB “UKRGASBANK” and an individual assessment of the members of Supervisory Board, was conducted in-house in the form of a questionnaire by filling out questionnaires in accordance with the Annexes to the Regulations on Assessment. Based on the results of processing the information obtained during the survey, the responsible person appointed by Supervisory Board prepared the Report on the Assessment of Supervisory Board of JSB “UKRGASBANK” in 2020 (hereinafter referred to as the Assessment Report, too), which was approved by the decision of Supervisory Board on 30 March 2021 (Minutes of Meeting No. 8).</p> <p>According to the Assessment Report, the overall efficiency of Supervisory Board of JSB “UKRGASBANK” in 2020 was assessed as excellent, namely:</p> <ul style="list-style-type: none"> • According to the parameter “Assessment of the Composition, Structure and Activity of Supervisory Board as a Collegial Body”, including the effectiveness of methods and procedures of Supervisory Board, as well as interaction with the Bank’s Management Board and control divisions, the activity is assessed as excellent; • According to the parameter “Assessment of the Collective Suitability of Supervisory Board”, the activity was assessed as well performed; • According to the parameter “Assessment of the Effectiveness of the Performance of Functions and Powers by the Committees of Supervisory Board”, including the effectiveness of the methods and procedures of the committees of Supervisory Board, the activity was assessed as excellent; • According to the parameter “Assessment of Supervisory Board’s Achievement of the Set Goals”, the activity was assessed as excellent.

Translation from Ukrainian original

	<p>The individual assessment of the activity of the members of Supervisory Board (each member of Supervisory Board) was based on the following:</p> <ul style="list-style-type: none"> • Competence and efficiency of each member of Supervisory Board, including information on the relevant activities of a member as an official of other legal entities or other activities - paid and gratis; • Business reputation of Supervisory Board members; • Professional suitability of the members of Supervisory Board, taking into account the effectiveness of their work in Supervisory Board, as well as the compliance with the duties of loyalty and care; • Independence of each of the independent members of Supervisory Board. <p>Individual assessment of the members of Supervisory Board was conducted using a mixed form: self-assessment (when a member of Supervisory Board evaluates only own effectiveness) and cross-assessment (when a member of Supervisory Board evaluates only the colleagues).</p> <p>The results of the individual assessment of the members of Supervisory Board in 2020 include the results of the evaluation of each member of Supervisory Board in 2020 and the results of the evaluation of experience, skills and professional qualities of the members of Supervisory Board in 2020.</p> <p>It should be noted that in accordance with paragraph 1.5 of the Regulations on the Assessment of the effectiveness of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 9 April 2019 (Minutes of Meeting No. 8), the information on the results of the evaluation of a particular member of Supervisory Board shall be classified as confidential and shall not be the subject to disclosure.</p> <p>In addition, as part of an individual assessment of the activities of the members of Supervisory Board of JSB “UKRGASBANK” in 2020, an assessment of the independence of each of the independent members was conducted. To assess the independence, each of the independent members of Supervisory Board filled out an appropriate questionnaire.</p> <p>According to the provided Independence Assessment Questionnaires, all independent members of the Bank’s Supervisory Board indicated compliance with the independence requirements established by the current legislation of Ukraine and the Bank’s internal regulations as of the date of filling in the questionnaires.</p>
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What requirements to members of Supervisory Board are included into the internal documents of the joint stock company?		
	Yes	No
Industry knowledge and experience in the industry	X	
Knowledge in the area of finance and management	X	
Personal qualities (honesty, responsibility)	X	
Absence of conflicts of interest	X	
Age limit		X
No requirements		X
Other (specify)		
When a new member of Supervisory Board was elected, how did he/she get acquainted with the relevant rights and obligations?		
	Yes	No
New member of Supervisory Board get acquainted with the contents of internal documents of the joint stock company on his/her own	X	
A meeting of Supervisory Board was conducted where the new member got acquainted with the his/her rights and obligations		X
Special training (in corporate governance or financial management) was arranged for the new member		X
All members of Supervisory Board were re-elected for another term or no new members were elected		X
Other (specify)		

How is the remuneration for members of Supervisory Board determined?		
	Yes	No
Remuneration is fixed		X
Remuneration is percent of net profit or increase of market value of shares		X
Remuneration is paid as securities of joint stock company		X
Members of Supervisory Board do not get remuneration		X
Other (specify)	<p>The amount of remuneration for the Chairperson and members of Supervisory Board, including compensations, shall be determined in accordance with the Regulations on Remuneration for the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.</p> <p>The Chairperson and members of Supervisory Board of JSC “UKRGASBANK”, which are the civil servants or persons authorized to perform the functions of the State, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on a free of charge basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded).</p> <p>The members of Supervisory Board of JSC “UKRGASBANK”, which are not the civil servants or persons authorized to perform the functions of the state, shall perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on payable basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded). The amount of their remuneration shall be established by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK”, and composed of the base amount and additional remuneration for a member of Supervisory Board fulfilling the functions of Chairperson of Supervisory Board (20% of the base remuneration) and participating in the activity of a Supervisory Board committee (10% of the base remuneration (independently of the number of committees)).</p> <p>Besides, if a member of Supervisory Board is a non-resident, the possibility to pay the relevant remuneration in foreign currency is foreseen.</p>	

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
<ol style="list-style-type: none"> 1. Andriy Mykolayovych Kravets – Chairperson of Management Board. 2. Oleksandr Vitaliyovych Dubrovin – First Deputy to Chairperson of Management Board. 3. Natalija Yevhenivna Vasylets – Deputy to Chairperson of Management Board. 4. Tamara Yuriyivna Savoshchenko – Deputy to Chairperson of Management Board. 5. Denys Viktorovych Chernyshov – Deputy to Chairperson of Management Board. 6. Serhiy Volodymyrovych Kharitich – Deputy to Chairperson of Management Board. 7. Rodion Valeriyovych Morozov – Deputy to Chairperson of Management Board. 8. Lyudmila Anatoliivna Chepinoha – Director of the Department of Compliance. 	<p>Functional obligations of each member of Management Board are established by effective legislation, Articles of Association of JSB “UKRGASBANK”, the Regulations on JSB “UKRGASBANK” Management Board and labor agreement (contract) awarded with the members of Management Board, and Decree on distribution of powers between the Bank’s managers.</p>

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
<p>Were the meetings of the executive body held:</p> <ul style="list-style-type: none"> • General description of the decisions adopted during the meetings; • Information on the results of the performance by the executive body; • Determination how the performance of the executive body stipulated the changes in the financial and economic activity of the joint stock company. 	<p>In 2020, Management Board of JSB “UKRGASBANK” conducted 84 meetings, during which the decisions were made in the majority of cases with respect to the following:</p> <ol style="list-style-type: none"> 1. Conduction of the assets transactions; 2. Changes in the organizational structure of the Head Office; 3. Activity of the offices of the Bank; 4. Financing of the capital investment items; 5. Selling of the property of JSB “UKRGASBANK”; 6. Results of inspections conducted by the Internal Audit Department and the status of implementation of the recommendations provided by the Internal Audit Department; 7. Consideration and approval of the internal regulation instruments of the Bank, etc. <p>Procedure of decision making (in accordance with the Articles of Association and the Regulations on Management Board of the Bank): When voting, the Chairperson and each member of Management Board have one vote. A member of Management Board does not have the right to transfer the vote to other persons.</p> <p>The decisions of Management Board are made by simple majority of votes of the general number of members of Management Board present at the meeting of Management Board in case the meeting was in praesentia, or who took part in the meeting of Management Board following the working procedure, unless another procedure of decision making is established by effective legislation or Articles of Association of the Bank. If the number of votes “for” and “against” is equal, the decision for which the Chairperson of Management Board voted shall be made.</p> <p>Changes in the composition of Management Board of JSB “UKRGASBANK” during 2020:</p> <ol style="list-style-type: none"> 1. Termination of authorities: <ul style="list-style-type: none"> • The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Yevhen Volodymyrovych Metsger, have been terminated on 12 March 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 12 March 2020 (Minutes of Meeting No. 9). • The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Oleksandr Stepanovych Ihnatenko, have been terminated on 27 March 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 27 March 2020 (Minutes of Meeting No. 13). • The powers of the Chairperson of Management Board of JSB “UKRGASBANK”, Mr. Kyrylo Yevhenovych Shevchenko, have been terminated on 16 July 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 16 July 2020 (Minutes of Meeting No. 31). • The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Oleksiy Mykolayovych Berezhnyi, have been terminated on 4 December 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 4 December 2020 (Minutes of Meeting No. 50). 2. Election: <ul style="list-style-type: none"> • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 25 March 2020, Mr. Denys Viktorovych Chernyshov was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years. • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
	<p>No. 12) from 9 April 2020 Mr. Serhiy Volodymyrovych Kharitich was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.</p> <ul style="list-style-type: none"> • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 15 April 2020 Mr. Andriy Mykolayovych Kravets was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years. • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 15 April 2020 Mr. Kyrylo Yevhenovych Shevchenko was elected as the Chairperson of Management Board of JSB “UKRGASBANK” for the period of five (5) years. • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 14 May 2020 (Minutes of Meeting No. 21) from 15 May 2020 Mr. Rodion Valeriyovych Morozov was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years. • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 2 November 2020 (Minutes of Meeting No. 45) Mr. Andriy Mykolayovych Kravets was elected as the Chairperson of Management Board of JSB “UKRGASBANK” for the period of five (5) years from the dates of his occupying the office upon concurrence by the National Bank of Ukraine following the established procedure. In accordance with the Order dated 16 November 2020 No. 623-II and taking into consideration the Letter from the National Bank of Ukraine dated 12 November 2020 No. 27-0005/66936 (incoming number dated 13 November 2020 No. 02/93213) Mr. Andriy Mykolayovych Kravets from 16 November 2020 took the office of the Chairperson of Management Board of JSB “UKRGASBANK”. • In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 14 December 2020 (Minutes of Meeting No. 52) from 15 December 2020 Ms. Lyudmyla Anatoliivna Chepinoha was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years. <p>As of 1 January 2021, 73 banks performed, out of them 33 banks are the banks with the foreign capital. JSB “UKRGASBANK” is included into the group of banks with the State share and takes the 4th place as per the amount of the assets.</p> <p>The assets of the Bank as of 1 January 2021 amounted up to 142.7 billion UAH, having grown during 2020 by 23.6 billion UAH or by 20%.</p> <p>As of 1 January 2021:</p> <ul style="list-style-type: none"> • The credit portfolio of the customers – 47.5 billion UAH, including: <ul style="list-style-type: none"> • The credit portfolio of the corporate business 37.4 billion UAH; • The credit portfolio of the small and medium business amounts up to 6.9 billion UAH; • The credit portfolio of the retail business constitutes 3.2 billion UAH; • The funds of the customers – 126.5 billion UAH, including: <ul style="list-style-type: none"> • The portfolio of the funds of the corporate customers constitutes 85.3 billion UAH; • The portfolio of the funds of the small and medium business amounts up to 11.6 billion UAH; • The portfolio of the funds of the retail business constitutes 29.6 billion UAH. <p>The securities portfolio as of 1 January 2021 constituted 56.0 billion UAH, having increased during 2020 by 25.6 billion UAH or by 84%.</p>

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
	<p>The Bank has been active in attracting financing from international financial organizations. Thus, as of 1 January 2021, the portfolio of the international institutions funds constituted 3.2 billion UAH, having increased during 2020 by 0.7 billion UAH.</p> <p>During 2020, the Bank has been actively developing trade finance operations. The portfolio of these operations as of 1 January 2021 amounted up to 14.9 billion UAH, including open letters of credit 3.5 billion UAH, received letters of credit 2.0 billion UAH, securities provided 6.2 billion UAH, securities received 1.7 billion UAH, instruments of own liabilities 1.5 billion UAH.</p> <p>Based on the results of 2020, the Bank made a profit of 411 million UAH.</p> <p>As of 1 January 2021, the Bank has 2,342 thousand customer, including: 2,264 thousand – retail business customers, 71.5 thousand – customers of the small and medium business, 6.8 thousand – corporate customers.</p> <p>As of 1 January 2021, about 2,061 thousand payment cards issued by JSB “UKRGASBANK”, are in circulation, out of them about 482 thousand are the active cards. In 2020, the Bank the Bank actively continued developing own multi-platform mobile application “ECO Bank” (the virtual card was introduced, as well as the possibility to pay the fines for the traffic rules violations, payments with any details, UnionPay and ПІОСТІР (PROSTIR) cards became available). The number of users of the application as of the end of 2020 constituted about 506 thousand.</p> <p>The Bank performs in accordance with the Measures of Strategic Reform of the State Banking Sector (strategic principles) (hereinafter referred to as Measures), Main Areas of JSB “UKRGASBANK” Activity for 2020-2023 (hereinafter referred to as Main Areas), JSB “UKRGASBANK” Strategy for 2019-2021 (hereinafter referred to as the Strategy).</p> <p>Measures, Main Areas and the Strategy define the following strategic objectives:</p> <ul style="list-style-type: none"> • Become the leading “Eco-bank” in Ukraine and ensure the funding of the projects in the area of energy effectiveness up to 30% of demand; • Get prepared for privatization within the frames of implementation of Memorandum of Understanding related to support of privatization (sale) of the Bank. <p>During 2020, limits for financing of five projects in terms of renewable energy sources, with the general capacity of 21,044 MWt for 7.33 million Euro and 2.2 million UAH were approved, out of which:</p> <ul style="list-style-type: none"> • Three projects – network solar power plants (those selling the generated electricity at the “green” tariff), with the general capacity of 20,984 MWt for the amount of 7.33 million EUR; • Two projects – solar power plants for own consumption (those allowing the company to reduce its own costs for the purchase of electricity from the network by replacing it, in part or in full, through its own generation), with the capacity of 0.06 MWt for the amount of 2.2 million UAH. <p>As of 1 January 2021, the credit portfolio of eco-products and other obligations in credit provision of the Bank constitutes 19.6 billion UAH.</p>

Composition of Management Board	
Personal Composition of Management Board	Functional Obligations of a Member of Management Board
	<p>The Bank complies with the set goals for the withdrawal of the State from capital. In 2020, all the indicative conditions of the Memorandum of Understanding between the Ministry of Finance of Ukraine, the Bank and International Finance Corporation related to support of privatization (sale) of the Bank, in terms of the conditions depending on the Bank. And at the beginning of 2021, a Loan Agreement was signed between the Ministry of Finance of Ukraine, the International Finance Corporation and JSB “UKRGASBANK” to provide a loan of EUR 30 million. The loan shall be provided for a period of five years to finance energy efficiency and renewable energy projects. The loan will create the conditions for the Bank’s transformation, as IFC will be able to convert the loan into equity.</p>
<p>Assessment of the performance of the executive body</p>	<p>In accordance with the Regulations on Management Board of the Bank, the assessment of the activities of the Chairperson of Management Board and Management Board as a whole shall be carried out on the basis of the results of Management Board’s performance for the year and after reporting of Management Board to Supervisory Board. The assessment of the activities of each individual member of Management Board shall be carried out by the Chairperson of Management Board.</p> <p>In assessing the activities of the Chairperson and members of Management Board, the results of the Management Board performance, the individual contribution of each member of Management Board to the Bank’s performance, and respective managerial capabilities, etc. shall be taken into account. The criteria for evaluating the activities of the Chairperson and members of Management Board shall be determined by Supervisory Board.</p> <p>Besides, Supervisory Board shall assess the performance of Management Board by way of:</p> <ul style="list-style-type: none"> • Receipt of information on the indices of the Bank’s performance; • Review of the relevant reports developed by the Internal Audit Department with respect to the audits conducted and the status of implementation/accomplishment by the management and the employees of the Bank of the recommendations regarding to elimination of violations and deficiencies in the Bank’s performance identified in the result of audits, and making decision based on the results of such reviews; • Receipt of information on the level of risks occurring in the result of its activity; • Receipt of information on potential risks related to current performance of the Bank in case of their occurrence. <p>In addition to the aforementioned, in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 18 December 2018 (Minutes of Meeting No. 33) from 2019 quarterly reporting of Management Board to Supervisory Board was introduced. Following the results of such reporting Supervisory Board of JSB “UKRGASBANK” perform the assessment of the efficiency and carefulness of Management Board of JSB “UKRGASBANK” actions with respect to management of the transactions performed by JSB “UKRGASBANK” and risks JSB “UKRGASBANK” is exposed to and, if necessary, submit proposals to Supervisory Board of JSB “UKRGASBANK” in order to improve its work.</p> <p>Thus, based on the results of quarterly review of the reports submitted by Management Board of JSB “UKRGASBANK” in accordance with the decisions of Supervisory Board of JSB “UKRGASBANK” dated 27 May 2020 (Minutes of Meeting No. 23), dated 24 June 2020 (Minutes of Meeting No. 27), dated 16 September 2020 (Minutes of Meeting No. 39), dated 23 December 2020 (Minutes of Meeting No. 54), the performance of Management Board of JSB “UKRGASBANK” for the relevant quarter of 2020 individually and correspondent period from the beginning of the reported year has been recognized effective, the actions of Management Board of JSB “UKRGASBANK” with respect to management of transactions of the Bank and risks – careful.</p>

5) Description of main characteristics of internal control and risk management systems of the Bank

Is Audit Commission established in your joint stock company, or is a position of an auditor introduced? Yes, Audit Commission is established.

If Audit Commission is established in the Bank:

Number of members of Audit Commission – three (3) persons;

How many times a year averagely did the meetings of Audit Commission take place during last three years? 1.

In accordance with the Articles of Association of the Bank, the competence of which body (general meeting of shareholders, supervisory board or management board) does include the decision of the following issues?

	General Meeting of Shareholder	Supervisory Board	Executive Body	Does not belong to competence of any Body
Determination of main areas of activity (strategy)	Yes	Yes	No	No
Approval of plans of activity (business plans)	No	Yes	No	No
Approval of financial report, or balance sheet, or budget	No	Yes	No	No
Election or termination of powers of the chairperson and members of executive body	No	Yes	No	No
Election or termination of powers of the chairperson and members of supervisory board	Yes	No	No	No
Election or termination of powers of the chairperson and members of audit commission	Yes	No	No	No
Determination of the amount of remuneration for the chairperson and members of executive body	No	Yes	No	No
Determination of the amount of remuneration for the chairperson and members of supervisory board	Yes	No	No	No
Making a decision on bringing the members of executive body to property responsibility	No	Yes	No	No
Making a decision on additional issue of shares	Yes	No	No	No
Making a decision on purchase, sale and placement of own shares	Yes	No	No	No
Approval of external auditor	No	Yes	No	No
Approval of agreement with conflict of interests	No	No	No	Yes

Do the Articles of Association of the Bank include the provisions which restrict the powers of Management Board to make decisions on award of contracts considering their amounts on behalf of the joint stock company? Yes, it does.

Do the Articles of Association or internal documents of the Bank include the provisions related to conflict of interests, i.e. contradiction between the personal interests of an official or associated persons and the duty to act to the interests of joint stock company? Yes, it does.

What documents are effective in the Bank?

	Yes	No
Regulations on General Meeting of the Shareholders	X	
Regulations on Supervisory Board	X	
Regulations on Executive Body	X	
Regulations on Officials of Joint Stock Company		X
Regulations on Audit Commission (or Auditor)	X	
Regulations on Procedure of Distribution of Profit		X
Other (specify)		

How can the shareholders receive the information related to the activity of your joint stock company?

Information about the activity of joint stock company	The information is distributed during general meeting	Information is disclosed in the public information data base of National Commission for Securities and Fund Market on the market of securities or via a person who discloses the regulated information on behalf of fund market players	Documents are provided for familiarization directly in joint stock company	Copies of documents are provided following the request of a shareholder	Information is provided at own web-site of joint stock company
Financial statement, results of activity	Yes	Yes	Yes	Yes	Yes
Information on shareholders who own 5 percent and more of voting shares	No	Yes	Yes	Yes	Yes
Information on composition of management bodies of the company	No	Yes	Yes	Yes	Yes
Minutes of General Meetings of shareholders after conduction	No	No	Yes	Yes	Yes
Amount of remuneration for officials of joint stock company	No	Yes	Yes	Yes	No

Does joint stock company develop financial statements in accordance with international standards of financial accounting? Yes, it does.

How many times were the audits of joint stock company conducted by independent auditor (audit company) within the reported period?

	Yes	No
Not conducted at all		X
Once a year	X	
More than once a year		X

What body did make a decision related to approval of independent auditor (audit company)?

	Yes	No
General Meeting of Shareholders		X
Supervisory Board	X	
Other (specify)		

Following the initiative of what body, did audit commission (auditor) perform the last audit?

	Yes	No
Following own initiative	X	
Following the errand of General Meeting		X
Following the errand of Supervisory Board		X
Following the address of Executive Body		X
On demand of shareholders who collectively own 10 and more percent of the voting shares		X
Other (specify)		

6) List of persons who directly or indirectly own significant package of shares of the issuer

№	Full name of legal entity – owner (owners) of first name, name, patronymic name (if any) of physical person – owner (owners) of significant package of shares	ID Code in accordance with the Unified State Register of Legal Entities, Physical Persons – Entrepreneurs and Public Organizations (for legal entity - resident), code/number from trade, bank or court register, registration certificate of local authority of foreign country on registration of legal entity (for legal entity – non-resident)	Size of share of shareholder (owner) (percent of authorized capital)
1	State of Ukraine in person of Ministry of Finance of Ukraine	00013480	94,940948

7) Information about any restrictions to the rights of participation and voting of shareholders (members) during general meeting of the shareholders of the issuer

General number of shares	Number of shares with restrictions	Basis for restrictions	Date of restriction occurrence
13 837 000 000	520 764 675	1 228 833 ordinary registered shares and 209 836 preference registered shares – restrictions in accordance with Item 10 Section VI of final and transition provisions of the Law of Ukraine <i>On the Depository System of Ukraine</i> .	11 October 2014
		518 439 305 ordinary registered shares – restrictions in accordance with Article 69 ² of the Law of Ukraine <i>On Joint Stock Companies</i> .	2013-2014

General number of shares	Number of shares with restrictions	Basis for restrictions	Date of restriction occurrence
		<p>886 701 ordinary registered shares – the information about the shareholders is not disclosed.</p> <p>267 242 preference registered shares – restrictions in accordance with Articles 26, 41, 42 of the Law of Ukraine <i>On Joint Stock Companies</i>. (the data in accord with the list of shareholders who had the right to participate in general meeting of Issuer, composed as of 24:00 1 July 2020, which took place on 7 July 2020).</p>	1 July 2020

8) Procedure for assignment and dismissal of officials of the Bank.

The procedure for assignment and dismissal of officials of JSB “UKRGASBANK” is regulated by the requirements of the effective legislation of Ukraine, in particular, Labor Code of Ukraine, the Law of Ukraine *On Banks and Banking*, the Decree of the Cabinet of Ministers of Ukraine dated 10 March 2017 No. 142 *Some Issues of management of national unitary entities and economic partnerships, in which more than 50 percent of shares in the authorized capital belong to the State*, Articles of Association of JSB “UKRGASBANK”, and the Regulations on Licensing of the Banks approved by the Resolution of the Management Board of National Bank of Ukraine dated 22 December 2018 No. 149.

9) Powers of officials of the Bank are determined by the Articles of Association of the Bank, the Regulations on Supervisory Board and Management Board, job descriptions, and Powers of Attorney

10) Information of the auditor with respect to the corporate governance

The auditor’s information with respect to the corporate governance report will be provided in the Independent Auditor’s Report on the Bank’s financial statements.

11) Information foreseen by the Law of Ukraine On Financial Services and State Regulation of the Market of Financial Services.

REPORT ON THE CORPORATE GOVERNANCE

1) *The objective of the Bank's activity*

In accordance with Articles of Association of PUBLIC JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK", approved by General Meeting of Shareholders of JSB "UKRGASBANK" dated 7 July 2020 (Minutes of Meeting No. 1), the objective (goals) of the Bank's activity is the fulfillment of the banking activity directed to making profit for the own development and in the interests of the shareholders.

2) *Compliance/non-compliance with the principles or code of corporate governance (with reference to the source of their text), deviation and reasons for such deviation during the year*

JSB "UKRGASBANK" in its activities does not deviate and strictly adheres to the Code of Corporate Governance of JOINT STOCK COMPANY "JOINT STOCK BANK "UKRGASBANK" approved by the decision of the General Meeting of Shareholders of JSB "UKRGASBANK" dated 25 April 2017 (Minutes of Meeting No. 1): https://www.ukrgasbank.com/upload/file/kodeks_ku.pdf.

3) *Owners of significant share (including persons exercising control over a financial institution), their compliance with the requirements of the legislation and changes in their composition for the year*

The State represented by the Ministry of Finance of Ukraine has a significant share (94.940948%) in the Bank's authorized capital, acquisition of substantial share for which took place in accordance with the current legislation of Ukraine.

During 2020, the owner of essential share of the Bank has not been changed.

4) *Composition of Supervisory Board and its changes during the year, including Committees established*

Supervisory Board

As of 1 January 2020, Supervisory Board of the Bank consisted of five (5) independent members and one (1) member – representative of the shareholder – the State of Ukraine, with this, the Chairperson of Supervisory Board was an independent member.

The personal composition of Supervisory Board of the Bank in accordance with the decisions of the General Meeting of the Shareholders dated 19 April 2019 (Minutes of Meeting No. 1), taking into consideration the decision of Supervisory Board of JSB "UKRGASBANK" dated 14 May 2019 (Minutes of Meeting No. 10):

1. Mr. Shrenik Dhirajlal Davda – Chairperson of Supervisory Board, independent member of Supervisory Board.
2. Mr. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
3. Mr. Yuri Ihorovych Geletiy – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
4. Mr. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
5. Mr. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
6. Mrs. Oksana Yulianivna Volchko – independent member of Supervisory Board.
7. Mr. Slawomir Roman Konias – independent member of Supervisory Board.

The letter from the Ministry of Finance of Ukraine dated 22 July 2020 No. 14010-10-7/22289 (incoming No. 0/63352 dated 24 July 2020) informed of the replacement of the member of Supervisory Board, representative of the shareholder – the State of Ukraine, Mr. Yuri Ihorovych Geletiy with Mr. Denys Valeriyovych Ulyutin.

Accordingly, the composition of Supervisory Board as of 24 July 2020 included the following members:

1. Mr. Shrenik Dhirajlal Davda – Chairperson of Supervisory Board, independent member of Supervisory Board.
2. Mr. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
3. Mr. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
4. Mr. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
5. Mrs. Oksana Yulianivna Volchko – independent member of Supervisory Board.
6. Mr. Slawomir Roman Konias – independent member of Supervisory Board.

The letter from the Ministry of Finance of Ukraine dated 1 December 2020 No. 27-0011/71757 (incoming No. 02/97988 dated 2 December 2020) informed of the concurrence of the candidature of Mr. D.V. Ulyutin for the position of the member of Supervisory Board, representative of the shareholder – the State of Ukraine. Due to this, starting with 2 December 2020, Mr. D.V. Ulyutin is considered to have entered the specified position. Accordingly, the personal composition of Supervisory Board from 2 December 2020 and as of 31 December 2020 was as follows:

1. Mr. Shrenik Dhirajlal Davda – Chairperson of Supervisory Board, independent member of Supervisory Board.
2. Mr. Artem Valentynovych Shevaliov – member of Supervisory Board, representative of the shareholder – the State of Ukraine.
3. Mr. Teymour Mahmedovych Bagirov – independent member of Supervisory Board.
4. Mr. Yuri Oleksandrovych Blashchuk – independent member of Supervisory Board.
5. Mrs. Oksana Yulianivna Volchko – independent member of Supervisory Board.
6. Mr. Slawomir Roman Konias – independent member of Supervisory Board.
7. Mr. Denys Valeriyovych Ulyutin – member of Supervisory Board, representative of the shareholder – the State of Ukraine.

The functional obligations of each member of Supervisory Board have been established by the effective legislation, the Articles of Association of JSB “UKRGASBANK”, the Regulations on Supervisory Board of JSB “UKRGASBANK”, the Regulations on the relevant committee of Supervisory Board and civil and legal agreement awarded to such member of Supervisory Board.

Supervisory Board Committees

Audit Committee of the Supervisory Board of JSB “UKRGASBANK”

Personal composition as of 31 December 2020:

1. T.M. Bagirov – Chairperson of the Committee;
2. Sh.D. Davda;
3. O.Yu. Volchko;
4. D.V. Ulyutin.

Changes in the composition of the Committee during 2020:

- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10) performed in the following composition:
 1. T.M. Bagirov – Chairperson of the Committee;
 2. Sh.D. Davda;
 3. Yu. I. Geletiy;
 4. O.Yu. Volchko.

- In accordance with the decision of Supervisory Board dated 11 December 2020 (Minutes of Meeting No. 51), the new composition of the Committee was elected:
 1. T.M. Bagirov – Chairperson of the Committee;
 2. Sh.D. Davda;
 3. O.Yu. Volchko;
 4. D.V. Ulyutin.

Risk Management Committee of Supervisory Board of JSB “UKRGASBANK”

Personal composition as of 31 December 2020:

1. A.V. Shevaliov – Chairperson of the Committee;
2. Yu.O. Blashchuk
3. S.R. Konias

No changes of the composition of the Committee during 2020 took place.

Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance

Personal composition as of 31 December 2020:

1. Sh.D. Davda – Chairperson of the Committee;
2. O.Yu. Volchko;
3. T.M. Bagirov;
4. D.V. Ulyutin.

Changes in the composition of the Committee during 2020:

- In accordance with the decision of Supervisory Board dated 14 May 2019 (Minutes of Meeting No. 10), the Committee of Supervisory Board of JSB “UKRGASBANK” on Remuneration, Assignments and Corporate Governance performed in the following composition:
 1. Sh.D. Davda – Chairperson of the Committee;
 2. O.Yu. Volchko;
 3. T.M. Bagirov;
 4. Yu. I. Geletiy.
- In accordance with the decision of Supervisory Board dated 25 September 2020 (Minutes of Meeting No. 40), the composition of the Committee was changed into the following:
 1. Sh.D. Davda – Chairperson of the Committee;
 2. O.Yu. Volchko;
 3. T.M. Bagirov;
 4. A.V. Shevaliov.
- In accordance with the decision of Supervisory Board dated 11 December 2020 (Minutes of Meeting No. 51), the composition of the Committee was changed into the following:
 1. Sh.D. Davda – Chairperson of the Committee;
 2. O.Yu. Volchko;
 3. T.M. Bagirov;
 4. D.V. Ulyutin.

Committee on attraction of investments and realization of development strategy of JSB “UKRGASBANK”

Personal composition as of 31 December 2020:

1. T.M. Bagirov – Chairperson of the Committee;
2. A.V. Shevaliov;
3. Yu.O. Blashchuk;
4. Sh.D. Davda.

No changes of the composition of the Committee during 2020 took place.

Committee on Holding Tenders for the Sale of Right of Claim under Loan Agreements and Deeds of Undertaking of JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”

Personal composition as of 31 December 2020:

1. T.M. Bagirov – Chairperson of the Committee;
2. Yu.O. Blashchuk;
3. S.R. Konias.

No changes of the composition of the Committee during 2020 took place.

Committee of the Supervisory Board for Raising Funds by JSB UKRGASBANK on the International Capital Market through “Green” Bonds Issue Mechanism

Personal composition as of 31 December 2020:

1. A.V. Shevaliov – Chairperson of the Committee;
2. T.M. Bagirov;
3. O.Yu. Volchko;
4. Yu.O. Blashchuk.

No changes of the composition of the Committee during 2020 took place.

Information Technologies Development Committee of Supervisory Board of JSB “UKRGASBANK”

Personal composition as of 31 December 2020:

1. S.R. Konias – Chairperson of the Committee;
2. Yu.O. Blashchuk;
3. O.Yu. Volchko.

No changes of the composition of the Committee during 2020 took place.

Reputation Incident Management Temporary Committee of JSB “UKRGASBANK” Supervisory Board

Personal composition as of 31 December 2020:

1. Yu.O. Blashchuk – Chairperson of the Committee;
2. T.M. Bagirov;
3. A.V. Shevaliov.

No changes of the composition of the Committee during 2020 took place.

In total, during 2020, 53 meetings of the committees of Supervisory Board took place to consider 144 issues, to provide 122 recommendations to Supervisory Board and 29 errands. The committees of Supervisory Board of JSB “UKRGASBANK” during 2020 adopted the decisions with respect to the following:

- The reports following the results of the audits conducted by the Internal Audit Department; reports on the results of monitoring of the completion of the audit recommendations;
- The development of the draft Budget of Supervisory Board of JSB “UKRGASBANK” for 2021; draft budgets of the Risk Management Department, Social and Ecological Risks Unit, the Department of Compliance and the Internal Audit Department of JSB “UKRGASBANK” for 2021;
- The organization of the conduction of the tender for Selection of the Auditors Aiming at Receiving the Services in Mandatory Audit of the Financial Statements of JSB “UKRGASBANK”;
- The proposals to establish the Key Performance Indices, their specific weight, method of KPI implementation calculation when determining the personal bonus for the employees of the Internal Audit Department of JSB “UKRGASBANK”;
- The current profile of the credit risk of the Bank, the liquidity risk, market risk and operations risk; the results of stress-testing of the credit, currency, interest, operations, liquidity risks; evaluation of the compliance risks of JSB “UKRGASBANK”;

- The assignment of CCO of JSB “UKRGASBANK”, and authorizing of CCO of JSB “UKRGASBANK” with the right to veto (ban) the decisions of Management Board and collegial bodies of Management Board;
- The approval of the relevant changes to be introduced into the organization chart of the Head Office of JSB “UKRGASBANK” and the Regulations on the appropriate structural divisions of the Head Office in the area of risk management and compliance;
- The preliminary review of the draft internal regulation instruments in the respective areas of competence of the Committees of Supervisory Board;
- The establishment of the indicative values of the key performance indices for the Chairperson and members of Management Board JSB “UKRGASBANK” and the methodology for their calculation;
- The election of the members of Management Board of JSB “UKRGASBANK” and approval of the conditions of the agreements to be awarded with the members of Management Board of JSB “UKRGASBANK”;
- Organization and conduction of competitive selection of candidates for the position of the Chairperson of Management Board of JSB “UKRGASBANK”;
- Compliance with the requirements of the legislation related to the establishment of the amount of remuneration for the managers, members of executive bodies and remuneration for the members of supervisory boards of the entities of the public sector of the economy for the period of quarantine;
- The preliminary consideration of the Strategy of the Risk Management in JSB “UKRGASBANK” as revised, the Strategy of Management of Non-performing Liabilities and Foreclosed Property of JSB “UKRGASBANK” for 2020-2022 as revised; Operative Plan of Implementation of the Strategy of Management of Non-performing Liabilities and Foreclosed Property of JSB “UKRGASBANK” for 2021; Program of Finance of the Bank for 2021; the Credit Policy of JSB “UKRGASBANK” for 2021; the Risk Appetite Statement of JSB “UKRGASBANK” for 2021, etc.

5) *Composition of Management Board of the Bank and its change during a year*

Personal composition of Management Board of JSB “UKRGASBANK” as of 31 December 2020:

1. Andriy Mykolayovych Kravets – Chairperson of Management Board;
2. Oleksandr Vitaliyovych Dubrovin – First Deputy to Chairperson of Management Board;
3. Natalija Yevhenivna Vasylets – Deputy to Chairperson of Management Board;
4. Tamara Yuriyivna Savoshchenko – Deputy to Chairperson of Management Board;
5. Denys Viktorovych Chernyshov – Deputy to Chairperson of Management Board;
6. Serhiy Volodymyrovych Kharitich – Deputy to Chairperson of Management Board;
7. Rodion Valeriyovych Morozov – Deputy to Chairperson of Management Board;
8. Lyudmyla Anatoliivna Chepinoha – Director of the Department of Compliance.

Changes in composition of Management Board of JSB “UKRGASBANK” during 2020:

- Termination of authorities:
 - The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Yevhen Volodymyrovych Metsger, have been terminated on 12 March 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 12 March 2020 (Minutes of Meeting No. 9).
 - The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Oleksandr Stepanovych Ihnatenko, have been terminated on 27 March 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 27 March 2020 (Minutes of Meeting No. 13).

- The powers of the Chairperson of Management Board of JSB “UKRGASBANK”, Mr. Kyrylo Yevhenovych Shevchenko, have been terminated on 16 July 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 16 July 2020 (Minutes of Meeting No. 31).
- The powers of member of Management Board of JSB “UKRGASBANK”, Mr. Oleksiy Mykolayovych Berezhnyi, have been terminated on 4 December 2020 in accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 4 December 2020 (Minutes of Meeting No. 50).
- Election:
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 25 March 2020, Mr. Denys Viktorovych Chernyshov was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 9 April 2020 Mr. Serhiy Volodymyrovych Kharitich was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 15 April 2020 Mr. Andriy Mykolayovych Kravets was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 25 March 2020 (Minutes of Meeting No. 12) from 15 April 2020 Mr. Kyrylo Yevhenovych Shevchenko was elected as the Chairperson of Management Board of JSB “UKRGASBANK” for the period of five (5) years.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 14 May 2020 (Minutes of Meeting No. 21) from 15 May 2020 Mr. Rodion Valeriyovych Morozov was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 2 November 2020 (Minutes of Meeting No. 45) Mr. Andriy Mykolayovych Kravets was elected as the Chairperson of Management Board of JSB “UKRGASBANK” for the period of five (5) years from the date of his taking the office upon concurrence by the National Bank of Ukraine following the established procedure. In accordance with the Order dated 16 November 2020 No. 623-II and taking into consideration the Letter from the National Bank of Ukraine dated 12 November 2020 No. 27-0005/66936 (incoming number dated 13 November 2020 No. 02/93213) Mr. Andriy Mykolayovych Kravets from 16 November 2020 took the office of the Chairperson of Management Board of JSB “UKRGASBANK”.
 - In accordance with the decision of Supervisory Board of JSB “UKRGASBANK” dated 14 December 2020 (Minutes of Meeting No. 52) з 15 December 2020 Ms. Lyudmyla Anatoliivna Chepinoha was elected as the member of Management Board of JSB “UKRGASBANK” for the period of five (5) years.

6) *Facts of violation by the members of Supervisory Board and Management Board of the internal regulations that caused damage to the financial institution or the consumers of the financial services*

There are no facts of violation by the members of Supervisory Board and Management Board of the Bank of the internal regulations.

7) *The measures of influence applied during 2020 by public authorities to the Bank, including members of its Supervisory Board and Management Board*

In 2020, JSB “UKRGASBANK” paid the following fines:

№	Number and the date of the decision the fine is applied in accordance to	Body which applied the fine	Type of penalty	Information on implementation	Description
1	Inspection Report dated 9 April 2019 No. 1094/28-10-43-02/23697280	State Fiscal Service of Ukraine	Fine	The fine paid on 29 May 2020	The fine in the amount of 130,220.00 UAH to the State Budget following the results of conducted in 2019 in JSB “UKRGASBANK” extra inspection in-situ by the employees of the Office of Large Taxpayers of the State Fiscal Service of Ukraine which was performed from 26 February 2019 through 2 April 2019, in the area of compliance with the requirements of Article 69 of the Tax Code of Ukraine as related to the timeliness of notification of the surveillance bodies on opening/closing of the accounts of the tax payers and carrying out of the withdrawal transactions at the specified accounts before receiving the notification of the surveillance body on registration of such accounts.
2	Act No. 27 dated 18 June 2020	Chief Department of Pension Fund in Khmelnytska Region	Fine	The fine paid on 2 July 2020	The fine in the amount of 4,620.12 UAH following the results of the scheduled inspection of the issues of correctness, timeliness and completeness of accrual of the pension amounts and the cash assistance to the current accounts of the beneficiaries

The public authorities did not apply any measures of influence to the members of Supervisory Board or Management Board of the Bank during 2020.

8) *The amount of remuneration for the year for the members of Supervisory Board and executive body of the financial institution*

The amount of remuneration for the Chairperson and members of Supervisory Board, including compensation payments, is determined in accordance with the Policy on the Remuneration for the Members of Supervisory Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”.

The Chairperson and members of Supervisory Board of JSC “UKRGASBANK”, which are the civil servants or persons authorized to perform the functions of the State, perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on a gratis basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded).

The members of Supervisory Board of JSC “UKRGASBANK”, which are not the civil servants or persons authorized to perform the functions of the State, but are the representatives of the shareholder or independent members, perform the functions imposed by the Articles of Association of JSB “UKRGASBANK”, the Regulations on the Supervisory Board of JSB “UKRGASBANK” and the relevant civil agreements on payable basis (with the possibility of compensation of documented expenses related to the activity as members of the Supervisory Board of JSB “UKRGASBANK”, in accordance with the procedure specified in civil agreements awarded). The amount of the remuneration to them is established by the decision of the General Meeting of Shareholders of JSB “UKRGASBANK”, and composed of the base amount and additional remuneration for a member of Supervisory Board fulfilling the functions of Chairperson of Supervisory Board (20% of the base remuneration) and participating in the activity of a Supervisory Board committee (10% of the base remuneration (independently of the number of committees)).

Besides, if a member of Supervisory Board is a non-resident, the possibility to pay the relevant remuneration in foreign currency is foreseen.

The amount of remuneration for the Chairperson and members of Management Board, including the compensations, is specified in accordance with the Policy on Remuneration for the Chairperson and Members of Management Board of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 6 December 2019 (Minutes of Meeting No. 25).

The amount of the base remuneration for the members of Supervisory Board of JSB “UKRGASBANK paid for 2020 constitutes 6,613,488.00 UAH, the additional remuneration – 730,662.40 UAH. Six recipients received the remuneration.

The amount of the fixed remuneration received by the members of Management Board of JSB “UKRGASBANK” during 2020 constituted 37,552,598.02 UAH, variable remuneration – 114,261,370.55 UAH. Twelve recipients received the remuneration.

During 2020 the annual bonus following the results of 2019 in the amount of _58,680,000.00 UAH was paid to the members of Management Board. The amount of the bonus was included into the amount of variable remuneration received by the members of Management Board of JSB “UKRGASBANK” in 2020.

In 2020, the monetary compensations for the unused days of the annual vacations were paid to the Chairperson and three members of Management Board, the powers of whom were terminated in 2020, in the amount of 4,954,944.48 UAH. These amounts were included into the variable remuneration received by the members of Management Board of JSB “UKRGASBANK” in 2020.

9) Significant risk factors that influences the activity of the Bank during 2020

During 2020, the realization of credit risk had the greatest impact on the Bank’s capital and income, which was reflected in the formation of the valuation reserve for assets transactions.

10) Availability of the risk management system in the Bank and its key characteristics

Risk Management Strategy of JSB “UKRGASBANK” identifies the following list of material risks:

№	Type of Risk	Definition
1.	Credit Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues in full as a result of non-performance by debtor/counteragent of undertaken obligations in accordance with the conditions of the contract
2.	Liquidity Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues in full as a result of the Bank’s failure to provide funding for the growth of assets and/or fulfillment of own obligations within the due time

№	Type of Risk	Definition
3.	Interest Risk	Probability of occurrence of damages or additional losses or failure to receive the planned revenues in full as the results of influence of adverse changes in interest rates. The interest risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The Bank manages the interest rate risk in trading and bank books on a consolidated basis.
4.	Market Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues in full as a result of adverse changes in exchange rates of foreign currencies, value of financial tools, etc.
5.	Operations Risk	Probability of occurrence of damages or additional losses, or failure to receive the planned revenues in full as a result of defects or errors in the organization of internal processes, intentional or unintentional actions of employees or other persons, failures in the work of information systems or due to external factors. Operations risk includes legal risk, that is, the probability of losses or additional losses, or the failure to receive the planned revenues due to the parties' failure to comply with the terms of the contracts due to their non-compliance with the requirements of the law. Operations risk excludes the reputation risk and strategic risk.
6.	Compliance Risk	Probability of occurrence of losses/sanctions, additional losses or failure to receive the planned revenues in full or loss of reputation due to the Bank's failure to comply with the requirements of legislation, regulations, market standards, fair competition rules, corporate ethics rules, conflicts of interest, as well as Bank's internal bank documents
7.	Social Risk	Probability of occurrence of damages, additional losses, or failure to receive the planned revenues in full as a result of occurrence of the danger to the health and safety of people, the negative impact on the local communities, cultural and archeological heritage
8.	Ecological Risk	Probability of occurrence of damages, additional losses, or failure to receive the planned revenues in full as a result of pollution of environment, and creation of hazard for biodiversity

System of risk management of the Bank has been built considering its size, business model, scope of activity, types and complexity of operations; it ensures the following:

- Identification;
- Measurement (Assessment);
- Monitoring;
- Reporting;
- Control;
- Mitigating all significant risks to the Bank in order to determine the amount of capital required by the Bank to cover all significant risks inherent to its activities (internal capital).

System of risk management meets the following principles:

- Efficiency – providing an objective assessment of the size of the Bank's risks and completeness of risk management measures with the optimal use of financial resources, personnel and information systems for risk management of the Bank;
- Timeliness – ensuring timely (at an early stage) identification, measurement, monitoring, control, reporting and mitigation of all types of risks at all organizational levels;
- Structuring – a clear division of functions, obligations and powers in the area of risk management between all structural units and employees of the Bank, and their responsibilities in accordance with such a division;
- Division of duties (separating the control function from the operations of the Bank) – avoiding a situation in which the same person carries out operations of the Bank and performs control functions;
- Comprehensiveness and integrity – the coverage of all Bank's activities at all organizational levels and in all its divisions, the assessment of the mutual influence of risks;
- Proportionality – the compliance of the risk management system with the Bank's business model, its systemic importance, and the level of complexity of operations carried out by the Bank;

- Independence – freedom from circumstances that threaten the impartial performance by the risk management department of its functions;
- Confidentiality – prevention of distribution of information that is not subject to disclosure by persons possessing no authority for its receipt;
- Transparency – disclosure by the Bank of information on the risk management system and risk profile.

The Bank during assessment of all types of risks shall consider the risk of concentration. The Bank shall consider the risk of concentration in the following terms:

- Per major debtors / depositors and their groups;
- Per business lines and products;
- Per types of economic activity (areas of economics) and geographical regions, counteragents of persons whose financial results depend on one type of activity or main product;
- Per classes of debtors/counteragents identified in accordance with the normative document of National Bank of Ukraine related to the assessment of credit risk;
- Per types of ensuring the fulfillment of obligations by debtors and counterparties;
- Per types of currencies.

The Bank evaluates the risks per financial instruments included into both trading and bank books.

The information related to the risk management is disclosed as part of annual and intermediate reports of the Bank.

Risk management system of the Bank is built taking into account its size, business model, scale of activity, types and complexity of operations, and provides for the identification, measurement (assessment), monitoring, reporting, control, and mitigation of all significant risks of the Bank in order to determine by the Bank the amount of capital required to cover all significant risks inherent to its activities.

Risk management system is based on the distribution of obligations between the divisions of the Bank with application of the model of three lines of protection:

- First line – at the level of business divisions and divisions of support for the Bank's performance;
- Second line – at the level of risk management divisions including the Risk Management Department and Unit for Social and Ecologic Risks, and the Department of Compliance;
- Third line – at the level of Internal Audit Department related to inspection and assessment of efficiency of the functioning of the risk management system.

Risk Management Structure

Supervisory Board

Supervisory Board defines and approves Risk Management Strategy, Risk Appetite Statement, Credit Policy, individual risk management policies, plan of ensuring the continuous performance, crisis financing plan, strategy and operational plan for managing non-performing liabilities and foreclosed property, determines the sources of capitalization and other financing of the Bank, reviews the Bank's risk profile reports, reviews the results of stress testing, approves the appointment and dismissal of CRO, identifies cases of prohibiting (vetoing) by CRO, ensures the operation and control of the effectiveness of the risk management system.

Risk Management Committee of Supervisory Board

The Risk Management Committee of Supervisory Board ensures that the internal regulation instruments regulating the risk management process and credit policy of the Bank are existing and updated, performs the regular monitoring and analysis of the current risk profiles that the Bank faces, performs the control over meeting the indices of risk appetite specified in the Risk Appetite Statement.

Management Board

Management Board is responsible for the overall approach to risk management and for implementing the risk management strategies and principles approved by Supervisory Board. Management Board of the Bank delegates operational risk management authority to the Bank's collegial bodies and establishes limits on the authority of these collegial bodies.

Collegial Bodies of Management Board

Credit Council, Credit Committee, Committee on Methodological Support for Retail, Small and Micro Business Risk Management, Loan Debt Management Commission, Credit Transaction Monitoring Committee, Credit Committees of Directorates manage credit risk within the limits of authority delegated by Management Board of the Bank.

The Assets and Liabilities Management Committee manages liquidity, interest rate and market risk within the authorities delegated by Management Board.

The Operations Risk Management Committee manages operations risk within the authorities delegated by Management Board.

The Information Security Management Committee manages information risk as a component of operations risk within the authorities delegated by Management Board.

CRO (Chief Risk Officer) and subordinated to CRO risk management divisions

CRO and subordinated to CRO risk management divisions provide for timely identification, measurement, monitoring, control, reporting of significant risks, prepare and submit risk reports to Supervisory Board, the Risk Management Committee of Supervisory Board, Management Board, collegial bodies of Management Board, develop and maintain up-to-date methodologies, tools and models of risk assessment, coordinate the works on risk management with other structural divisions of the Bank, estimate the risk profile of the Bank, provide monitoring and prevention of risk appetite indices and risk limits, control the approximation of risk indicators to the approved maximum risk indicators and risk limits, and initiate measures to prevent their violations, perform stress testing, develop conclusions to adopt the decisions with respect to loans on both new loans and changes on existing loans, develop conclusions on the risks inherent to the new products at the time of their introduction to make appropriate management decisions.

CCO (Chief Compliance Officer) and the Department of Compliance

CCO and the Department of Compliance carry out the development of compliance procedures, including compliance principles, which are mandatory for all employees and management, ensure relevance of the compliance function with the current requirements of the law and conduct training and improve the awareness of the Bank's employees in terms of compliance with legal rules, relevant standards of professional associations, the effect of which extends to the Bank, risk management culture, taking into account the code of conduct (ethics), organize the continuous functioning of the compliance function in the Bank, coordinate the establishment of potential compliance risk areas that may result in the loss of the Bank's reputation, legal or regulatory sanctions or financial damages, ensure the development and implementation of compliance risk mitigation measures, including transparent processes to prevent or reduce compliance risk level, as well as aiming to identify, register and implement measures related to compliance breach, assess the compliance risks inherent to the new products and significant changes in the Bank's operations prior to their implementation for adoption of the management solutions, provide for the organization of the control over the meeting by the Bank of the norms with respect to timeliness and reliability of financial and statistical statements, prepare conclusions on compliance risk for decision-making on assets transactions with the persons associated with the Bank.

Risk Appetite Statement

The Bank determines (declares) aggregate risk appetite by setting aggregate risk margins and risk appetite for individual risks by setting the risk margins for significant risks defined by the current Risk Management Strategy in JSB “UKRGASBANK”:

- Credit risk;
- Liquidity risk;
- Interest risk;
- Market risks;
- Operations risk;
- Compliance risk;
- Ecologic risk;
- Social risk.

The Statement is prepared in accordance with the assumptions underlying the Bank’s Budget, taking into account the prudential requirements of the National Bank of Ukraine (including those established for system important banks) and the covenants which the Bank has undertaken to comply with in accordance with agreements with international financial institutions.

Aggregate risk appetite includes requirements for maintaining an international credit rating target, adherence to capital ratios and capital buffers, including the expected changes in prudential requirements and the regulatory environment.

Credit risk appetite includes a system of quality control indices of the credit portfolio (share of non-performing assets and collected property), credit risk value, limitation of the risk of concentration as per major borrowers, industries, etc.

Liquidity risk appetite includes minimum values of liquidity coverage ratio (LCR) in all currencies and separately in foreign currencies, net stable funding ratio (NSFR), limitation of concentration indices in liabilities.

Interest rate risk appetite includes indicators of the sensitivity of net interest income and the economic value of capital to the parallel / non-parallel shift of yield curves in major currencies.

Market risk appetite is set as the maximum values of positions sensitive to market risk, and the value at risk calculated as per a parametric model based on a Student t-distribution with 7 degrees of freedom with a confidence interval of 99% on the horizon of ten (10) trading days.

Operations risk appetite is set as the maximum amount of direct losses from the realization of operations risk at the end of the year. However, regardless of the cost of the incident and the amount of potential loss, the Bank has established zero tolerance for operations risks related to internal fraud incidents, service negligence, and disruption of the continuity of critical business processes.

Compliance risk appetite is determined by setting compliance risk margins. Regardless of the cost of the compliance risk incident and the amount of potential loss, the Bank is intolerant of compliance risk incidents related to the following:

- Performance by the Bank of the risky activity;
- Realization of the material reputation risks having significant influence on the performance by the Bank.

11) *The results of functioning during 2020 of the system of internal audit (control), and data included into the notes to financial and consolidated financial accounting in accordance with the provisions (standards) of accounting*

In JSB “UKRGASBANK”, the comprehensive, adequate and efficient system of internal control is introduced for all the areas of the activity of the Bank at all the organizational levels.

The main tasks of the system of internal control include the following:

- Achievement by the Bank of the goals, including completion of the planned indices of its activity, ensuring of efficiency and effectiveness of the Bank’s operations, preservation of its assets;
- Ensuring the efficiency of the corporate governance in the Bank by way of functioning of the comprehensive, efficient and adequate system of risk management;
- Ensuring the completeness, timeliness and reliability of composing and submission of financial, managerial and other reports and statements;
- Compliance of the activity of the Bank with the effective legislation of Ukraine, normatives and regulations of the National Bank of Ukraine, standards of the professional associations the effect of which extends to the Bank, and the internal documents of the Bank.

The norms and requirements set to the functioning of the internal control system of the Bank are stated by the Policy of Organization of Internal Control System in JSB “UKRGASBANK”, approved by Supervisory Board of the Bank.

The system of internal control ensures the achievement of the operational, informational and compliance goals of the activity of the Bank, specified in the strategies, policies, business plan, other internal documents or individual decisions of the collegial bodies of the Bank.

The system of the internal control is based on the determination of the clear objectives of the system of internal control, building of the organizational structure and clear distribution between the collegial bodies of the Bank, structural divisions of the Bank and the employees of the relevant authorities, functions and functional obligations established by the internal documents of the Bank.

The distribution of the functions between the structural divisions is based on the application of the model of three lines of protection, specifically:

- 1) First line – at the level of business divisions and divisions of support for the Bank’s performance. These divisions initiate, perform or reflect the transactions, accept the risks in the process of their activity and bear the responsibility for the current management of these risks, undertake the measures of control;
- 2) Second line – at the level of risk management divisions, specified by the Strategy of Risk Management of JSB “UKRGASBANK” and the Department of Compliance. These divisions ensure the assurance of the Bank’s management that the first line of protection measures implemented for risk control and management have been developed and function properly;
- 3) Third line – at the level of Internal Audit Department, which carries out an independent assessment of the effectiveness of the first and second lines of protection and an overall assessment of the effectiveness of the internal control system, taking into account the requirements established by the Regulations No. 311.

Subjects of system of internal control in the Bank are:

- 1) Supervisory Board;
- 2) Management Board;
- 3) Collegial bodies of the Bank, including the collegial bodies of Supervisory Board and Management Board of the Bank;
- 4) Business divisions, divisions of support;
- 5) Risk management divisions specified by the Strategy of Risk Management of JSB “UKRGASBANK” and the Department of Compliance;
- 6) The Internal Audit Department;

- 7) Managers and employees of the Bank performing the internal control in accordance with the powers established by the internal documents of the Bank.

The main areas of the internal control performance include the following:

- 1) Control over the achievement of the Bank's objectives, including the objectives defined in the internal regulation instruments and in individual decisions of the General Meeting of the Shareholders, Supervisory Board, Management Board, the Chairperson of Management Board and other collegial bodies of the Bank;
- 2) Control over ensuring the efficiency of the Bank's financial and economic activities in the event of banking and other operations' performance;
- 3) Control over the effectiveness of asset and liability management;
- 4) Control over the preservation of the Bank's assets;
- 5) Control over the effectiveness of the risk management system;
- 6) Control over compliance with the requirements of the effective legislation of Ukraine, regulations of the National Bank of Ukraine, internal bank documents, standards of professional associations, the effect of which extends to the Bank;
- 7) Control over the accuracy, completeness, objectivity and timeliness of accounting, preparation and publication of financial and other statements for external and internal users;
- 8) Management of information flows, including the receipt and transmission of information, ensuring the functioning of the information security management system.

With regard to the performance of the internal audit system during 2020, the Internal Audit Department within the work plan completed the following¹:

- 1) Conducted ten thematic process audits, performed considering the process and risk oriented approached to the audit conduction;
- 2) Found and reflected in the Audit Reports the issues related to the risk in the performance of the Bank, in particular, with regard to the following:
 - 2.1) Insufficiently effective system of internal control:
 - Procedures for calculating the Bank's commission fee for services rendered;
 - Identification and cooperation with related parties of the Bank;
 - processes related to the valuation and monitoring of the mortgaged property in the Bank;
 - Proper verification of the customers, opening the accounts for the customers who are politically exposed persons;
 - Analysis of customer transactions, detection and registration of transactions subject to financial monitoring;
 - Observance of delegated powers by the collegial bodies of the Bank and authorized employees of the structural divisions of the Bank;
 - Correctness of adjustment of templates of tariff plans, the amounts of tariffs, the order of testing of the price banking products before their introduction in the industrial environment;
 - accounting of working hours of the Bank's employees.
 - 2.2) The processes are not fully built / organized as related to the following:
 - Interaction of the Bank's structural divisions in the process of operational risk management, distribution of responsibilities, and establishment of controls;
 - Reimbursement by employees of taxes for additional benefits provided, which leads to violations of the regime of use of the current accounts of employees of the Bank;
 - Identification/selection, accreditation/re-accreditation of companies providing services for valuation, monitoring and inspection of mortgaged property;

¹ Work Plan of the Internal Audit Department for 2020, approved by the decision of Supervisory Board dated 28 December 2019 (Minutes of Meeting No. 28).

- The arrangement of the second line of protection, which would confirm that the measures implemented by the first line of protection to control and manage risks in the direction of processing the database of customer complaints are developed and function properly.
- 2.3) Deficiencies of interbank documents and / or insufficient level of their detail as related to the following:
- Implementation of the requirements of the legislation in the area of financial monitoring;
 - Implementation of the requirements of the Regulations of the NBU *On the Organization of Risk Management System in Banks of Ukraine and Banking Groups* dated 14 June 2018 No. 64.
- 3) According to the results of audits, the assessment of the level of risk in the areas of banking (processes) was performed, including in terms of risk categories, as well as assessment of the effectiveness of the internal control system (including additional components/activities of the Bank in accordance with the causes of identified deficiencies and their consequences for the Bank's activities).
- 4) In order to improve the system of internal control, based on the results of audits conducted in 2020, the audit provided relevant recommendations, the appropriate structural divisions of the Bank developed corrective action plans, clear deadlines for which were approved by Management Board. The Internal Audit Department regularly monitors the implementation of corrective action plans in a timely manner. Supervisory Board of JSB "UKRGASBANK" ensures the implementation of the general control over the status of implementation of the audit recommendations by way of receipt of relevant managerial reports.

The implemented internal control system of JSB "UKRGASBANK" generally meets the requirements of the "Regulations on the Organization of the Internal Control System in Banks of Ukraine and Banking Groups", approved by the Resolution of the Management Board of the NBU dated 2 July 2019 No. 88, the *Regulations on the Organization of Risk Management System in Banks of Ukraine and Banking Groups*, approved by the Resolution of the Management Board of the National Bank of Ukraine dated 11 June 2018 No. 64, the Policy of organization of the internal control system in JSB "UKRGASBANK" (as revised), approved by the decision of Supervisory Board of JSB "UKRGASBANK" dated 28 December 2019 (Minutes of Meeting No. 28). In accordance with the requirements of paragraph 11.6 of the Regulations on the organization and conduction of audits in JSB "UKRGASBANK", approved by Supervisory Board of JSB "UKRGASBANK" dated 28 December 2019 (Minutes of Meeting No. 28), the assessment of the effectiveness of the internal control system is provided by the Internal Audit Department as part of the report on the implementation of the annual plan of audits.

The International Standards of Financial Statements do not contain any requirements related to the disclosure of information related to the system of internal audit (control) in the notes to annual financial statements.

12) *Facts of divestment during 2020 of assets in excess of the size established in the Bank's Articles of Association*

During 2020, there were no cases of divestment of assets in the amounts exceeding the one established by the Articles of Association of JSB "UKRGASBANK".

13) *Results of valuation of assets in the event of their sale during 2020 in the amount exceeding the one established by the Articles of Association of JSB "UKRGASBANK"*

During 2020, there were no cases of divestment of assets in the amounts exceeding the one established by the Articles of Association of JSB "UKRGASBANK", in connection with it no assessment of such assets was performed.

14) Operations with associated persons, including within the limits of the same industrial and financial group or other association, performed during 2020. Such information is not a commercial secret

The amount of all claims of the Bank granted to the persons associated with the Bank (determined in accordance with the requirements of Article 52 of the Law of Ukraine *On Banks and Banking*) as of the end of 2020 constituted 24.8 million UAH. During 2020, the Bank adhered to the Standard of Maximum Credit Risk for Transactions with Bank-Related Persons (H9).

15) The used recommendations of the bodies that carry out the state regulation of financial services markets regarding the auditor's report

There is no information related to the existence of recommendations of the bodies carrying out the state regulation of financial services markets regarding the auditor's report.

16) Information on the external auditor of Supervisory Board of JSB "UKRGASBANK" assigned during 2020

Ernst & Young Audit Services LLC (Code according to USREOU 33306921, location: 19a, Khreshchatyk St., Kyiv, Ukraine, 01001) performed the audit of the annual financial statements of JSB "UKRGASBANK", compiled in accordance with the requirements of International Financial Reporting Standards for the year ended 31 December 2020 (Minutes of Meeting of Supervisory Board of JSB "UKRGASBANK" dated 3 November 2020 No. 46).

17) Activity of external auditor, in particular:

- Overall experience of audit performance:
Date of registration of Ernst and Young Audit Services LLC is 13 December 2004, date of issuance of certificate of Chamber of Auditors of Ukraine is 27 January 2005 (16 years).
- Number of years during which the company provides the audit services to the Bank:
Ernst and Young Audit Services LLC provides the audit services from 2015.
- List of other audit services provided to the Bank during 2020:
Ernst and Young Audit Services LLC did not provide other audit services to the Bank during the last year.
- Cases of conflict of interests and/or overlapping of external auditor functions:
During 2020, no cases of conflict of interests and/or overlapping of external auditor functions were recorded.
- Rotation of auditors in financial institution during last five years;
Rotation of auditors in JSB "UKRGASBANK" during last five years:
 - For 2016 – provision of services of the audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.
 - For 2017 – provision of services of the audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.
 - For 2018 – provision of services of the audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.

- For 2019 – provision of services of the audit of annual financial statements prepared in accordance with the International Standards of Financial Statements by Ernst and Young Audit Services LLC.
- For 2020 – Ernst and Young Audit Services LLC – provision of services of the audit of annual financial statements prepared in accordance with the International Standards of Financial Statements.
- Penalties applied to auditor by Chamber of Auditors of Ukraine during 2020, and facts of submission of unreliable statement of JSB “UKRGASBANK” that is confirmed by audit conclusion detected by bodies performing state regulation of financial service markets.
During the last year, no penalty was applied to Ernst and Young Audit Services LLC by the Audit Chamber of Ukraine, and there is no information with respect to the facts of submission of unreliable financial statements of a financial institution confirmed by audit conclusion, found by the bodies performing the state regulation of the financial services market.

18) Protection by JSB “UKRGASBANK” of the rights of the users of financial services, in particular:

- Availability of mechanism of complaints’ processing:
Complaints are processed in accordance with the Regulations on the Procedure for Dealing with Complaints in JSB “UKRGASBANK”, approved by the decision of Management Board of JSB “UKRGASBANK” dated 13 August 2020 (Minutes of Meeting No. 52).
- First name, name, patronymic name of an employee of the Bank authorized to review the complaints:
Mr. Oleh Anatoliyovych Savoshchenko, Regional Distribution Department Director, is an authorized person of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK” for review of complaints.
- Status of review by the Bank during 2020 of complaints related to the financial services rendering (nature, number of complaints received, and number of complaints satisfied):
In 2020, 188 complaints were addressed for consideration to Regional Distribution Department in regard with the provision of financial services by the Bank. The issues presented in complaints related to refund of money due to non-receipt at ATM, return of erroneously or incorrectly transferred money from an account, disagreement with the amount credited to / withdrawn from the card account in accordance with the tariffs, etc.
45 complaints related to financial services in 2020 were satisfied.
- The existence of lawsuits in court regarding the provision of financial services by the Bank and the results of their consideration:
Within the period from 1 January 2020 through 31 December 2020, 133 claims (including counterclaims) of consumers of financial services to JSB “UKRGASBANK” as related to provision of financial services by the Bank, out of which 104 non-property claims (mainly on invalidation of loan agreements and mortgage agreements) and 29 property claims were in court proceedings.
As a result of consideration of these lawsuits at the end of the reporting year 2020, 37 lawsuits were won by the Bank, 4 lawsuits were lost by the Bank and 92 cases are still in the process of court proceedings.

19) Information about corporate governance in the Bank, submission of which is foreseen by the legislation in the area of regulation of certain markets of financial services and/or accepted in accordance with such laws normative and legal acts of the bodies performing governmental regulation of the markets of financial services

Corporate governance in JSB “UKRGASBANK” is performed in accordance with the requirements of the legislation of Ukraine and considering the Recommendations on the Practice of Application of Legislation in the Area of Corporate Governance, approved by the decision of the National Commission on Securities and Fund Market dated 12 March 2020 No. 118, and Methodic recommendations related to corporate governance in the banks of Ukraine approved by decision of Management Board of National Bank of Ukraine dated 3 December 2018 No. 814-пш.

The decision of General Meeting of Shareholders dated 25 April 2017 (Minutes of Meeting No. 1) approved the Corporate Governance Code of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, determining the basic principles of corporate governance in JSB “UKRGASBANK”, structure of corporate governance, loyalty and responsibility of the Bank’s officials, internal control system, information disclosure and transparency in the Bank’s activities, environmental liability, etc.

In accordance with the above mentioned Code, the corporate governance in the Bank bases on the following principles:

- Ensuring the protection of the rights and legitimate interests of shareholders, and equal treatment of all shareholders irrespective of the number of shares owned by them and other factors.
- Rational and clear distribution of powers between Supervisory Board and Management Board, as well as the introduction of a proper system of accountability and control, the creation of the necessary conditions for the timely exchange of information and effective interaction between them.
- Respect for the rights and consideration of the legitimate interests of the persons concerned (employees, creditors, state agencies and local self-government bodies, etc.) and active cooperation with them in order to create prosperity, workplaces and ensure financial stability of the Bank.
- Determination by General Meeting of Shareholders of the objectives and main areas of the Bank’s performance.
- Strategic management by Supervisory Board of the Bank’s performance and ensuring of effective control over the activity of Management Board.
- Well-balanced, efficient and effective management of current activities by Management Board.
- Timely disclosure of complete and reliable information about the Bank, including its financial status, economic indicators, significant events, ownership structure and management in order to allow users making informed decisions.
- Effective control over the financial and business operations of the Bank in order to protect the rights and legitimate interests of the Bank’s shareholders and customers.

These principles form the policy of corporate governance adherence to which is obligatory for all structural divisions of the Bank.

Additional Information Subject to Disclosure in the Report on Management in accordance with the Instruction on the Procedure of Development and Disclosure of Financial Statements of Banks of Ukraine, approved by the Management Board of the National Bank of Ukraine dated 24 October 2011 No. 373

During 2020, the banks received 41.3 billion UAH of net revenue, which is by 29% less than for the same period of the last year (the income for 2019 amounted to 58.4 billion UAH). The coronavirus crisis worsened the financial condition of banks, but less significantly than predicted at the beginning. In 2020, out of 73 solvent banks, 65 banks were profitable and received a net profit of 47.7 billion . Despite the general decline in business activity and declining interest rates, Ukraine's banking sector remains highly profitable. According to the results of 2020, the operating profitability of banks was high, and the reflected credit losses were not excessive. Operating income before the change in reserves for assets transactions in 2020 exceeded the same indicator of last year by 8% (163 billion UAH against 151 billion UAH). Thus, the decrease in the financial result of the banking system in 2020 was influenced by allocations to reserves (more by 177% than in 2019). And this was a consequence of a number of banks recognizing the deterioration in asset quality due to the financial difficulties of borrowers caused by the coronavirus crisis.

During the year, the funding base grew and its value decreased. As of 1 January 2021, all banks performed LCR in foreign currency and LCR in all currencies (minimum values – 100%).

In 2020, the share of non-performing liabilities (NPLs) in the banking system of Ukraine decreased by 7.4 percentage points – from 48.4% (as of 1 January 2020) to 41% (as of 1 January 2021). The quality of loan portfolios has improved in banks of all groups. Large-scale work on clearing portfolios of non-performing liabilities was done by state-owned banks. At the end of June 2020, the NBU approved three-year plans submitted by state-owned banks to settle the NPL. In total, in 2020, they wrote off 30.6 billion in national currency and 3.1 billion in dollar equivalent in foreign currency of reserved debt. Taking into account these measures, state-owned banks reduced the share of non-performing liabilities from 63.5% to 57.4% in 2020.

The market share of public financial institutions in 2020 has hardly changed: 52.5% and 60.0% in net assets and household deposits, respectively. The degree of concentration in the sector has not changed over the past few years: at the end of last year, 20 banks accounted for 91.5% of net assets.

As of 1 January 2021, the assets of the banking system amounted to 1,824 billion UAH, the share of JSB “UKRGASBANK” in assets is 7.8% (142.7 billion UAH); according to the NBU classification for 2020, the Bank is a bank with state share.

The credit portfolio of the banking system as of 1 January 2021 constitutes 596 billion UAH, the share of JSB “UKRGASBANK” in the credit portfolio constitutes 8.0% (47.5 billion UAH).

The portfolio of the customers' funds of the banking system of Ukraine as of 1 January 2021 constitutes 1 378 billion UAH, the share of JSB “UKRGASBANK” in the portfolio of the customers' funds constitutes 9.2% (126.5 billion UAH).

During 2020, the Bank accomplished all the liabilities undertaken in a timely manner and in full.

For the services of the customers as of 1 January 2021, in 162 cities and towns of Ukraine 278 active sales points are available. As of 1 January 2021, the number of customers of the Bank constitutes 2,342 thousand, including: 2,264 thousand – retail business customers, 71.5 thousand – small and medium business customers, and 6.8 thousand – corporate customers.

The Bank accepts deposits from individuals and legal entities, provides loans, provides payment services in Ukraine and transfers funds abroad, conducts currency exchange operations, securities transactions, trade financing operations and provides other banking services to its customers.

As of 1 January 2021:

- Credit portfolio of the customers – 47.5 billion UAH, including:
 - Credit portfolio of the corporate business 37.4 billion UAH;
 - Credit portfolio of the small and medium business constitutes 6.9 billion UAH;
 - Credit portfolio of the retail business constitutes 3.2 billion UAH;

- Customers' funds – 126.5 billion UAH, including:
 - Portfolio of the corporate customers' funds constitutes 85.3 billion UAH;
 - Portfolio of the small and medium business customers' funds constitutes 11.6 billion UAH;
 - Portfolio of the retail business' funds constitutes 29.6 billion UAH.

Transactions with the Payment Cards

As of 1 January 2021, about 2,061 thousand payment cards issued by JSB “UKRGASBANK” are in circulation, about 482 thousand out of them are active. In 2020, the Bank actively continued developing own multi-platform mobile application “ECO Bank” (the virtual card was introduced, as well as the possibility to pay the fines for the traffic rules violations, payments with any details, UnionPay and PROSTIR (ПРОСТІР) cards became available), the number of users of which as of the end 2020 exceeded 506 thousand.

Treasury Operations and Investments. Securities

As of 1 January 2021, the volume of funds in other banks amounted up to 24,854 million UAH, the volume of funds of other banks – 2,505 million UAH.

The volume of the security portfolio as of 1 January 2021 constituted 56,034 million UAH. The share of the US treasury bonds in the portfolio of securities of the Bank as of the end of 2020 constituted 10.2%, or 5,688 million UAH.

During 2020, the Bank actively developed trade finance operations. The portfolio of these operations as of 1 January 2021 amounted up to 14.9 billion UAH, including open letters of credit for 3.5 billion UAH, received letters of credit for 2.0 billion UAH, securities provided for 6.2 billion UAH, securities received for 1.7 billion UAH, instruments of own liabilities for 1.5 billion UAH.

JSB “UKRGASBANK” won the nomination “Best Trade Finance Bank of Ukraine 2021” following the results of the 11th annual Global Banking & Finance Review Awards. The leading role in this achievement was played by the support of trade financing agreements from the EBRD and IFC under trade support programs, as well as the use of “net” limits from foreign banks and counterparties.

Despite the challenges of 2020 related to the formation of reserves for “green” loans and COVID-19, the Bank remains profitable. According to the results of 2020, JSB “UKRGASBANK” received a profit of 411 million UAH. The result was influenced by the following factors: operating income 3,911 million UAH (including net interest income after expenses on credit losses amounted to 1,693 million UAH, non-interest income amounted to 2,118 million UAH, changes in expected credit losses on other assets amounted to 100 million UAH), administrative and other operating expenses 3,401 million UAH, and disbandment of other reserves 1 million UAH.

Return on assets is 0.28%, decreased by 1.04 percentage points compared to last year, return on equity is 4.69%, decreased by 15.80 percentage points compared to 2019.

The Bank's operating income in 2020 amounted to 3,911 million UAH, including net interest income after credit loss expenses of 1,693 million UAH (interest income – 9,576 million UAH, interest expense 6,367 million UAH, expenses on credit losses 1,517 million UAH), the total amount of net non-interest income is 2,118 million UAH. The largest share in non-interest income is occupied by: net commission income, which amounts to 1,236 million UAH (including 1,619 million UAH of commission income, which is 256 million UAH or 19% more than last year), net profits from the transactions with the foreign currencies 223 million UAH, the result from the derivative financial instruments 182 million UAH, net profits from the investment securities available for sale 148 million UAH, commission from the insurance companies and banks 137 million UAH, the positive result from the sale of held-for-sale assets, fixed assets and intangible assets 42 million UAH, income from the marketing support services 30 million UAH, fines received and other payments for overdue loan agreements' payments 27 million UAH, net profits from the investment real estate 13 million UAH, return of earlier written-off assets 9 million UAH, other incomes 71 million UAH.

The largest specific weight in the structure of the Bank's operating income is traditionally occupied by interest income, the volume of which reduced by 88 million UAH (-1%) during 2020, and as of 1 January 2021 amounted up to 9,576 million UAH. The largest share in the interest incomes is taken by the revenues of the corporate business (37%) and the revenues from the assets management (49%).

The net interest spread for 2020 constituted 2.52%, margin was 2.45%.

In 2020, the Bank continued to develop trade finance operations, which resulted in increasing of the amount of commission income from guarantees and letters of credit by 19% to 157 million UAH. At the same time, the largest share in the Bank's commission income belongs to the income from settlement transactions (67%).

During 2020, the amount of non-interest expenses excluding changes in expected credit losses on other assets and other reserves amounted to 3 401 million UAH. The ratio of administrative and other operating expenses before operating revenue to the change in reserves constituted 64%.

Guided by a prudent policy on administrative and other operating costs, the Bank saved 290 million UAH as compared to the plan.

The policy of rational use of resources also extended to capital investments. Thus, for 2020 savings of capital expenses made 260 million UAH at the actual amount of capital expenses being 220 million UAH.

On 2 December 2020, the Expert-Rating rating agency decided to update the credit rating of JSB "UKRGASBANK" on a national scale at the level of "uaAA+".

On 30 November 2020, the "IBI rating" rating agency announced the update of the credit rating of JSB "UKRGASBANK" at the level of uaAA with a change in the rating outlook to "positive". Reliability rating of the bank deposits is confirmed at the level of "5+" (excellent reliability).

On 21 October 2020, the international agency Fitch Ratings confirmed the long-term rating in foreign and national currency at "B" level with "stable" outlook. The rating corresponds to Fitch's current sovereign credit rating for Ukraine.

The Bank also won the "Savings Bank for Business" nomination of the Banks 2020 rating by the Financial Club and Yuridichna Praktyka Publishing House, as well as the "Savings Deposit" nomination of the annual project "50 Leading Banks of Ukraine".

Became the only Ukrainian bank that entered the TOP-25 Ukrainian brands according to the Vlast Deneg Magazine (*Power of Money*).

The National Bank of Ukraine has annually revised the list of banks that have a significant impact on the stability of the entire financial system. According to the Decision of the NBU Management Board, JSB "UKRGASBANK" has been receiving the status of a system important bank for the second year in a row.

The Bank received an award for achievements under the IFC Global Trade Finance Support Program, which it joined in autumn 2017. JSB "UKRGASBANK" became the best in the nomination of GTFP 2019 Best Issuing Bank Partner in Eastern Europe.

The Professional Association of Corporate Governance (PACG) and the CSR Development Center, with the support of the Center for International Private Entrepreneurship (CIPE), assessed Ukrainian companies for transparency in the corporate governance system and corporate social responsibility. According to experts, state-owned JSB "UKRGASBANK" took the first place in terms of information transparency.

Business Magazine published a rating of "Leaders of SME financing", where JSB "UKRGASBANK" is an absolute record holder in the number of awards, specifically:

- SME support – the leader of investment lending. For achievements in the field of SME lending for business development;
- Leader of state support programs. For active participation in state programs of state support and financing of the sector.
- The best bank – antivirus. For the best comprehensive solutions to support SMEs under quarantine conditions (credit vacations, loan restructuring programs, concessional financing, cancellation of fines and penalties, etc.).

- Choice of small agricultural producers. For leading positions in the field of lending and servicing of farms and small agricultural companies.

The main recognition – “Choice of Entrepreneurs 2020” was also received by JSB “UKRGASBANK” for its active work with the customers of the SME segment.

The international agency Fitch Ratings has confirmed JSB “UKRGASBANK”’s long-term rating in foreign and national currency at the “B” level with “stable” outlook. The rating corresponds to Fitch’s current sovereign credit rating for Ukraine. The bank’s national long-term rating is confirmed at the level of “AA (ukr)” with a stable outlook that reflects its unchanging creditworthiness.

JSB “UKRGASBANK” was also included in the TOP-50 best companies of the year according to the Vlast Deneg Magazine (*Power of Money*). Their brand rating has gathered prominent Ukrainian companies that develop according to the latest standards of European business.

Small and Medium Business

It is planned to increase the customer base due to the development of alternative sales channels, implementation of digital solutions, development of transaction banking, optimization of credit processes, improvement of business intelligence, creation of targeted customer products and programs, increasing attention to the micro segment, activation of the existing customer base.

Corporate Business

Corporate banking is currently the largest segment of the Bank in terms of business volume. The Bank will focus on increasing the share of the private sector and reducing the share of public sector enterprises. In the corporate segment, the Bank will also develop transactional banking by increasing the volume of transactions using documentary letters of credit, guarantees / reserve letters of credit, documentary collections, trade credit agreements, etc.

Retail Business and Alternative Sales Channels

The Bank plans to increase its customer base by attracting the economically active population of working age. Digital solutions will be implemented, including Open Banking Concept. Due to its own processing center, it is possible to quickly configure and target card products. Close synergies are planned with small and medium-sized businesses and corporate banking on salary projects.

Equity

The Bank’s policy is to maintain a stable level of equity in order to ensure adequate confidence from investors, creditors and other market participants, as well as sustainable business development in the future. At the same time, the impact of the level of capital on shareholders’ profits is taken into account as well, therefore the Bank recognizes the need for a balance between increasing profitability, which is possible as a result of increasing the ratio of borrowed capital and equity, and the benefits and stability provided by financial position.

The National Bank of Ukraine, as the main regulatory body, sets the requirements for the amount of the Bank’s capital as a whole, and monitors the implementation of these requirements on the basis of reporting according to national standards. The Bank and its individual operations are under the direct supervision of national regulators.

According to the existing capital requirements set by the NBU, banks must maintain a ratio of capital to risk-weighted assets (“capital adequacy ratio according to Ukrainian regulatory requirements”) above a certain set minimum. As of 31 December 2020 and 31 December 2019, this minimum level is 10%. The Bank meets the regulatory requirements for the level of capital for the periods ended 31 December 2020 and 31 December 2019.

The Bank analyzes its performance with respect to the meeting of the requirements set forth to the minimum amount of capital, including capital adequacy requirements estimated in accordance with the 1988 Basel Accord, as set out in the Basel Committee on Banking Supervision document, “International Convergence: Capital Measurements and Capital Standards” (as amended in April 1998) and the Amendment to the Basel Accord to take into account market risks (as amended in November 2005), known as Basel I. As of 31 December 2020 and 31 December 2019, the minimum level of capital adequacy indices according to Basel I requirements is 8% and the minimum capital adequacy of the first level is 4%.

Analytical bases for calculating capital adequacy according to the requirements of the NBU and the requirements of Basel I are different, so they cannot be comparable.

As of 31 December 2020 and 2019, the capital adequacy ratio of the Bank constitutes as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Base capital	8,314,311	7,024,638
Supplementary capital	93,325	196,656
Deductible	6,660	6,660
Regulatory Capital	8,400,976	7,214,634
N2 ratio	14.31%	15.23%
N3 ratio	14.16%	14.83%

The below table demonstrates the composition of the Bank’s capital position estimated against the requirements of Basel Accord as of 31 December 2020 and 2019:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Tier 1 capital	8,963,581	8,525,802
Tier 2 capital	(414,750)	(271,318)
Total capital	8,548,831	8,254,484
Risk weighted assets	73,057,413	59,889,856
Tier 1 capital ratio	12.27%	14.24%
Total capital ratio	11.70%	13.78%

As of 31 December 2020 and 2019, the Bank adhered to the capital adequacy ratio estimated in accordance with the provisions of the Basel Accord.

Liquidity risk and management of funding sources

Liquidity risk is a risk that arises from a bank’s inability to meet its obligations in a timely manner without incurring unacceptable losses, or from its inability to manage unplanned cash outflows, changes in funding sources and/or meet off-balance sheet liabilities. To limit this risk, management uses various sources of funding in addition to its core deposit base. Management also performs day-to-day liquidity management of the Bank, taking into consideration the balances on correspondent accounts and plans for receipts and outflows of funds; management of current liquidity for up to one month by determining the Bank’s needs in liquid funds and determining the size of the liquidity gap during the specified period; liquidity management for a period of more than one month by assessing the degree of inconsistency of the term structure of assets with the term structure of liabilities and developing measures to maintain the appropriate level of liquidity of the Bank in the future.

Analysis of financial liabilities grouped on the basis of terms from the reporting date to the maturity date in accordance with the relevant agreement

Tables below present the information related to the future undiscounted cash flows of financial liabilities as of 31 December 2020 and 31 December 2019 in terms of the periods left until repayment in accordance with the conditions of the agreements. Derivative instruments, repayable by delivery of the underlying assets, are presented in terms of amounts receivable and payable on periods left until repayment. Liabilities subject to repayment on demand are considered to be payable at the earliest possible date. However, the Bank expects that a significant part of customers will not require payments at the earliest possible date.

<i>Financial liabilities As at 31 December 2020</i>	<i>Up to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Due to credit institutions	2,745,711	1,749,843	1,174,644	–	5,670,198
<i>Gross settled derivative financial instruments</i>					
Contractual amounts receivable	(4,883,748)	–	–	–	(4,883,748)
Contractual amounts payable	5,111,399	–	–	–	5,111,399
Due to customers	106,358,378	18,446,773	2,503,506	12,611	127,321,268
Lease liabilities	20,311	56,162	77,591	–	154,064
Other liabilities	765,151	–	–	–	765,151
Total undiscounted financial liabilities	110,117,202	20,252,778	3,755,741	12,611	134,138,332

<i>Financial liabilities As at 31 December 2019</i>	<i>Up to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Due to credit institutions	3,232,702	1,411,506	1,151,353	136,128	5,931,689
<i>Gross settled derivative financial instruments</i>					
Contractual amounts receivable	(1,529,595)	–	–	–	(1,529,595)
Contractual amounts payable	1,573,219	–	–	–	1,573,219
Due to customers	88,551,534	14,911,856	887,177	1,674	104,352,241
Lease liabilities	16,862	43,890	82,652	–	143,404
Other liabilities	657,550	–	–	–	657,550
Total undiscounted financial liabilities	92,502,272	16,367,252	2,121,182	137,802	111,128,508

Financial Mechanisms

The policy of financial activity of the Bank is directed to gaining of acceptable level of risk-weighted revenue, and ensuring the growth of investment attractiveness of the Bank, strengthening the positions in the banking market, improving the quality of service, improving the quality of the credit portfolio, increasing the customer base, increasing non-interest income, optimizing the product line, improving sales channels, improving marketing campaigns. The Bank plans to develop the cooperation with international finance institutions, documentary business, etc.

Ecological and Social Aspects in the Bank's Activity

The Bank has own Policy of Ecological and Social Responsibility of JSB “UKRGASBANK” in place and the Regulations on Assessment, Monitoring, Accountability as Related to Ecological and Social Risks of the Projects in JSB “UKRGASBANK”. In 2020, the Regulations on Assessment, Monitoring, Accountability as Related to Ecological and Social Risks of the Projects in JSB “UKRGASBANK” was revised and approved. Besides, in 2020 the internal documents of the Bank were supplemented with the prohibition for the financing of the projects related to the coal mining industry.

All the projects funded by the Bank are subject to proper verification and assessment of compliance with the social and ecological requirements of ecological and social Policy of the Bank. The projects funded by the Bank are developed and performed in accordance with the best Ukrainian and international practices. In order to help customers and their projects achieve this, the Bank is guided by eight requirements in the social and environmental fields as regards the implementation of projects developed by the International Finance Corporation. In its activity, the Bank is guided by the principles of sustainable development and performance standards of International Finance Corporation (PS IFC):

- **PS1** Assessment and Management of Environmental and Social Risks and Impacts;
- **PS2** Labor and Working Conditions;
- **PS3** Resource Efficiency and Pollution Prevention;
- **PS4** Health and Safety of Population;
- **PS5** Land Acquisition and Involuntary Resettlement;
- **PS6** Biodiversity Conservation and Sustainable Management of Living Natural Resources;
- **PS7** Indigenous Peoples;
- **PS8** Cultural Heritage.

Projects related to alternative energy and energy efficiency as well as other projects according to the criterion of materiality are assessed in accordance with the Bank's requirements for environmental and social policy and efficiency. Project size, location and potential environmental and social impacts are considered. If the social and environmental assessment reveals that the project to be credited does not meet or will not fully comply with the specified requirements, the Bank shall develop and coordinate with customer the Environmental and Social Action Plan to achieve the relevant standard of the Bank's activities during the specified period. Besides, in case of significant legislative deviations in social aspects and environmental issues, deferment conditions for crediting shall be established, and only after such deviations are removed the Bank shall provide the crediting for a facility.

In 2020, the Bank assessed 179 borrowers for the presence/absence of social and environmental risks, of which 94 were low-risk, 81 – were medium-risk and only 4 were high-risk. Besides, in 2020 17 visits to borrowers were made to assess environmental and social risks.

For comparison, in 2019 the Bank assessed 156 borrowers for the presence/absence of social and environmental risks, of which 83 were low-risk, 71 were medium-risk and only 2 were high-risk.

Employment, Respect for Human Rights, the Fight against Corruption

Aiming at ensuring the rights of employees and ensuring the employment, the Personnel Policy and HR Management Procedures is in effect in JSB "UKRGASBANK".

In particular, in line with the Policy, the personnel policy of the Bank is based on the principle of equal opportunities and mutual respect between all employees independently on the positions, divisions where the employees work. Each employee is entitled for the equal respect and a decent attitude to the respective work and personality from all employees and managers of the Bank. Any discrimination is forbidden, specifically, violation of the principle of equality of rights and opportunities, direct or indirect restriction of rights depending on race, skin color, political, religious and other beliefs, sex, gender identity, sexual orientation, ethnic, social and foreign origin, age, state of health, disability, suspicion or presence of HIV/AIDS, family and property status, family responsibilities, place of residence, membership in a trade union or other association of citizens, participation in a strike, application or intent to apply to a court or other bodies for the protection of own rights or to provide support to other employees in the protection of their rights, on linguistic or other grounds, not related to the nature of the work or the conditions for its implementation. Besides, the Bank's employees established the primary trade union organization "The Trade Union of JSB "UKRGASBANK" Workers".

The Bank's activities are based on trust and mutual respect between all its managers / employees. The Bank adheres to all applicable laws, ensuring equal opportunities for promotion of all employees. Discrimination on the grounds of race, color, sex, country of origin, age, religion, disability, marital status, pregnancy, sexual orientation, gender identity and expression, nationality or any other legally protected sign is prohibited.

Every employee of the Bank is obliged to:

- Treat colleagues fairly and with respect;
- Recognize and respect customers and other third persons with whom the Bank has relations as partners;
- In no way discriminate against colleagues.

The Bank recognizes and guarantees equality with customers. The main objective of the Bank is to become the best partner and provider of banking services for the customers. Relations with the customers, and the provision of services to customers, are carried out in a way that best meets customer requirements and allows for long-term relationships based on cooperation and trust.

The Bank recognizes and guarantees equality with the suppliers. The Bank shall not use the advantage in a contractual position in such a way that it unfairly, or in a way that does not comply with the principles of rationality, violates the rights of the suppliers.

The Bank recognizes equality with the competitors. Relationships with the Bank's competitors are based on the principles of honesty and mutual respect in accordance with the requirements of the antimonopoly legislation of Ukraine. The Bank does not enter into unfair agreements that do not comply with the pricing policy, and adheres to the requirements of fair competition practice.

The Bank is guided by the principle of "zero tolerance" to any manifestations of corruption and takes all measures provided by law to prevent, detect and combat corruption and related actions (practices) in its internal activities, as well as in legal relations with customers, contractors and other legal entities or individuals with whom business relations are established, public authorities, local governments.

The Bank has introduced a system of training for the Bank's employees, as well as a mechanism for prevention and control of corruption and violations:

- Restrictions on receiving/giving business gifts and representative expenses are set;
- The mechanism of confidential notification ("whistleblowing") of potential and identified violations in the activities of the Bank and its employees while maintaining the confidentiality of notification is introduced.

The Anti-Corruption Program has been implemented in the Bank, and a Commissioner for the Implementation of the Anti-Corruption Program has been appointed.

Information about the Managers and Officials

The procedure for assignment and dismissal of officials of JSB "UKRGASBANK" is regulated by the requirements of the effective legislation of Ukraine, in particular, Labor Code of Ukraine, the Law of Ukraine *On Banks and Banking*, Decree of the Cabinet of Ministers of Ukraine dated 10 March 2017 No. 142 *Some Issues of Management of National Unitary Entities and Economic Partnerships, in which more than 50 Percent of Shares in the Authorized Capital Belong to the State*, Articles of Association of JSB "UKRGASBANK", and the Regulations on Licensing of the Banks approved by the Resolution of the Management Board of the National Bank of Ukraine dated 22 December 2018 No. 149.

Their powers are specified by the Articles of Association of the Bank, the Regulations on Supervisory Board and the Regulations on Management Board, relevant job descriptions, and Power of Attorney.

Procurement of the shares of JSB “UKRGASBANK”

During 2020, the Bank did not sell own shares, did not procure and/or in other way did not acquire the shares.

Structural Divisions

In the structure of the Bank, there are independent divisions: in the Head Office – 46 (including 6 divisions, which are subject to reduction after the actual dismissal of employees); regional directorates – 22 (including 1 subject to liquidation), district directorate – 1.

Received Remuneration during the Reported Period

Remuneration for the Chairperson and members of Management Board of the Bank was paid in 2020 on the basis of the following:

- Decisions of Supervisory Board and in accordance with the Policy on Remuneration for the Chairperson and members of Management Board of JSB “UKRGASBANK”, approved by the decision of Supervisory Board of JSB “UKRGASBANK” dated 6 December 2019 (Minutes of Meeting No. 25).

Remuneration for the Chief Accountant and Chief Accountant deputies is performed on the basis of the Collective Agreement and the Policy on Remuneration and Material Incentives for the Employees of PUBLIC JOINT STOCK COMPANY “JOINT STOCK BANK “UKRGASBANK”, approved by the decision of Management Board of JSB “UKRGASBANK” dated 22 March 2018 (Minutes of Meeting No. 17), as amended.

Human Resources

As of the end of the reported period, the general number of JSB “UKRGASBANK” personnel constituted 4463 persons, out of them 70 % – women, 30% – men.

The number of employees of JSB “UKRGASBANK” during the reporting period increased by 144 people, in total, the increase in the number of employees is associated with the development of business areas and the opening of new offices of JSB “UKRGASBANK”.

More than 78% of the employees are from 25 to 49 years old, the average age of the employees is 40 years. The average experience of work in the Bank is more than 5 years.

Intellectual Capital

The Bank’s personnel management policy is based on the formation of a cohesive and highly professional team. To achieve this objective, the professional level of employees is constantly being improved.

In order to ensure the rights of the employees and employment provision, in JSB “UKRGASBANK” the Personnel Policy and the procedures of personnel management are effective. In particular, in accordance with the Policy, the personnel policy of the Bank is based on the principle of equal opportunities and mutual respect between all the employees independently of the positions, divisions where employees work. Each employee has the right for equal respect and decent attitude to his/her work and personality from all employees and managers of the Bank.

Given the quarantine and the threatening epidemiological situation associated with the spread of coronavirus infection in the world and in Ukraine, the main priorities of the Bank’s personnel policy in 2020 included: employee health; guaranteeing the safest working conditions; concern for material well-being; informational and moral-psychological support of employees. During the period of quarantine, Bank’s employees were able to work remotely by introducing a remote work format, while maintaining the remuneration of such employees at the pre-quarantine level. In addition, work was carried out to transform the Bank’s premises into a safe environment for work and customer service, and modern disinfection tools were purchased and used.

In order to minimize the negative impact during the quarantine period, the internal communications were strengthened by regular information provision to the employees about current and important news of the Bank and the state, providing useful advice on the organization of work in the new environment.

In order to improve the professional level of employees in 2020, a new Training and Information Portal was introduced, the modern functionality of which provided the opportunity to organize training through new formats such as videos, webinars, interactive courses and combined training programs that can join different formats (classroom and remote).

Technological Resources

Starting with March-April 2020, the workers of the Head Office and Regional Directorates were transferred to the remote mode of work with the use of CheckPoint VPN software.

The project of introduction of the new Remote Service System for legal entities ЕКО-БУМ 24/7 was successfully completed. The main works related to migration of the customers to the new Remote Service System were carried out.

24/7 System of Electronic Payments with the banking regulations ties was launched and introduced.

The first two stages of the “Conveyor of Credit Decisions” were put into commercial operation, which allowed making decisions 24/7 on Credit Card applications through the Mobile Banking, as well as on customer applications for consumer and card loans “Tepla Oselya (*Warm Home*)”, “ECO Oselya (*ECO Home*)”, “Green Car”, “Renewable energy sources”, “Gas stations for Eco-Cars”, “Domovychoh”, “Transactor’s Card”. In addition, the functionality of the system related to direct companies and interface of users’ workplaces of all types of such companies has been implemented.

Moco HR Process and Talent Management Automation System was put into industrial operation.

Research and industrial operation of the Electronic Archive software was successfully completed.

HelpDesk system continued developing; the detection of operational risk incidents from IT incidents is improved in it.

Within the frames of Agile Room project, the video and conferencing system and user workstations on terminal servers were deployed.

In 2020, the complex of works on inventory of the network infrastructure of the Head Office, on pilot projects of monitoring systems, on revision of network segmentation in preparation for the implementation in 2021 of a new IP plan to eliminate comments in the PCI DSS audit was continued. The Zabbix software product has been deployed and used to provide infrastructure monitoring.

The collection of logs from operating systems and information systems to the search and analytical system ElasticSearch has started.

Pilot projects on deployment of the bank services and virtual jobs on Amazon Web Services were implemented.

Google G-Suite is being introduced into the industrial use in the work of the users in the result of conduction of the pilot project Google WorkSpace.

Relations with the Associated Persons

Supervisory Board has approved the Regulations on Procedure of Implementation of Operations with the Persons Associated with the Bank.

A person shall be considered associated with the Bank from the moment of occurring of the grounds for identification of such person as associated with the Bank.

The following persons are associated with the Bank:

- Controllers of the Bank.
- Persons possessing significant share in the Bank and the persons, through which these persons indirectly own significant share of the Bank.
- Managers of the Bank, Internal Audit Department Director, Chairpersons and members of collegial bodies of Supervisory Board and Management Board.
- Related and affiliated persons of the Bank, including participants of the banking group.
- Persons possessing substantial share in related and affiliated entities of the Bank.

- Managers of legal entities and managers of the banks which are related and affiliated persons of the Bank, managers and members of committees of these entities.

The persons who in accordance with established by the National Bank of Ukraine grounds of nature of relations and/or nature of operations, are determined as persons associated with the Bank.

The following persons are not associated with the Bank:

On grounds of affiliation:

- The State of Ukraine (in person of relevant body of state power or management and/or subjects performing only on the basis of state ownership);
- Territorial community (represented by the relevant local government body);
- An international financial institution, with which the Government of Ukraine concluded an agreement of cooperation and for which according to the laws of Ukraine, privileges and immunities are established;

The Bank prepares a list of persons associated with the Bank that is approved by the Management Board on a monthly basis.

The Bank ensures the relevance of information about persons associated with the Bank based on changes in information related to a person identified by the Bank as associated, determination of new persons associated with the Bank, etc. The Bank is obliged to take measures in order to ensure the compliance of transactions with persons associated with the requirements of the legislation from the moment the signs of association of an individual or legal entity with the Bank occur.

The Bank is entitled to reject an operation with persons, with respect to which it is difficult or impossible to detect the existence or absence of association with the Bank. The Bank shall ensure the modification of the list of persons associated with the Bank based on the changes of information about a person who is recognized associated with the Bank, determination of new persons associated with the Bank, etc.

No later than the next working day upon recognition of a person to be associated with the Bank and introduction of information to the List of Persons Associated with the Bank, the Bank shall inform such persons of the fact in writing.

Transactions requiring definition of a counteragent belonging to the persons associated with the Bank:

1. Transactions resulting in occurrence of financial requirements to the persons associated with the Bank, i.e.:
 - Placement of deposits and settlement funds in other banks;
 - Granting the loans, including based on bill of change;
 - Factoring transactions, financial leasing,
 - Purchase of debt securities;
 - Acquisition of shares and other non-fixed income securities;
 - Other transactions resulting to occurrence of accounts receivable;
2. Provision of financial commitments by the Bank regarding persons associated with the Bank, i.e.:
 - Provision/issuance by the Bank of guarantees, letters of comfort, letters of credit, vouchers and letters of acceptance;
 - Granting by the Bank of liabilities in crediting.

Agreements with persons associated with the Bank cannot stipulate conditions that are not current market conditions. The Bank shall carry out assets transactions with persons associated with the Bank on conditions that do not differ from the conditions of assets transactions with other persons. The eligibility criteria for credit granting, as determined by the Credit Policy, cannot be adapted to the requirements and needs of individuals associated with the Bank.

Agreements with persons associated with the Bank on the conditions that are not current market conditions shall be considered void from the moment of their award.

The following conditions shall not be considered current market conditions:

- Acceptance of less security for liability implementation than required from other customers.
- Procurement from a person associated with the Bank of property of low quality or at an overvalued price.
- Investments in securities of a person associated with the Bank, which the Bank would not have invested into another enterprise.
- Payment for the goods and services of a person associated with the Bank at prices higher than usual, or in such circumstances, when the same goods and services of another person would not have been acquired at all.
- Selling to a person associated with the Bank of property for the price lower than the price which the Bank would have received from selling of such property to another person.
- Accrual of interest and commission fees for services rendered by the Bank to the persons associated with the Bank, which are smaller than usual.
- Accrual of interest for deposits attracted by the Bank from the persons associated with the Bank which are higher than usual.

The Bank is obliged to undertake measures in order to make the transactions with the persons associated with the Bank compliant with the legislation of Ukraine from the moment of occurrence of signs of association of a physical person or legal entity with the Bank. The Bank is entitled to reject a transaction with persons, with respect to which it is difficult or impossible to detect the existence or absence of association with the Bank.

Supervisory Board shall make decisions related to award of agreements by the Bank with the persons associated with the Bank in cases and following the procedure established by the effective legislation of Ukraine.

Management Board shall make decisions related to award of agreements by the Bank with the persons associated with the Bank following the procedure established by the effective legislation of Ukraine, and within the limits of powers (limits of maximum amount of credit risk per a person associated with the Bank), set by a decision of Supervisory Board of the Bank.

Management Board may delegate its powers in decision making related to award of agreements by the Bank with persons associated with the Bank to collegial bodies of the Bank and employees of the Bank.

If an agreement with a person associated with the Bank results in exceeding of the set by Supervisory Board of the Bank limit of maximum amount of credit risk per person associated with the Bank, the decision related to award of such agreement shall be made by Supervisory Board of the Bank given that it would not result in violation of the rated maximum amount of credit risk for transactions with the persons associated with the Bank (H9).

Members of Supervisory Board, Management Board, collegial bodies of Management Board and employees of the Bank to whom the authority to perform assets transactions with persons associated with the Bank is delegated, cannot be involved into approval of decision related to granting the loans to the persons associated with them.

It is forbidden to the Bank to grant loans to any person for the repayment of any obligation by this person towards a person associated with the Bank, to acquire assets of a person associated with the Bank, except for the products produced by this person, and securities placed or signed by person associated with a Bank.

It is forbidden to the Bank to indirectly carry out the credit transactions with persons associated with the Bank, including placing funds in another bank for crediting by this bank the associated persons of the Bank.

During 2020, the Bank has consistently adhered to the standard for maximum exposure to credit risk related to transactions with the persons associated to the Bank (H9) and legal restrictions for transactions with the persons associated with the Bank.

References, additional explanations of the amounts reflected in the annual financial statements. Information on the financial situation is presented in annual financial statement with additional clarifications related to it in notes to annual financial statement.



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Independent auditor's report

To the Shareholders and Management Board of PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the Bank), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance and its 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 the 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 financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the 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 financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How our audit addressed the key audit matter

Expected credit loss allowance on loans to customers

Assessment of expected credit loss allowance on loans to customers is a key area of judgment for the Bank's management. Due to the material nature of the loans to customers' balances, which represent 33% of total assets, and the related estimation uncertainty, expected credit loss allowance on loans to customers is considered a key audit matter.

Measurement and calculation of expected credit loss allowance as well as the allocation of loans to customers to appropriate IFRS 9 stages, determining probability of default and loss given default rates and expected cash flows for settlement of debt, including cash flows from collateral, require significant use of professional judgment and involves various assumptions, in particular considering the events related to the COVID-19 outbreak. The use of different assumptions could produce significantly different estimates of expected credit loss allowance on loans to customers.

The disclosures in respect of expected losses are presented in Note 10 "Loans to customers" and the Bank's management approach for assessing and managing credit risk is described in Note 28 "Risk management" to the financial statements.

Our audit procedures included analysis of models, methodology and management overlays related to the COVID-19 outbreak developed by the Bank for estimation of expected credit loss allowance. We assessed and tested the design and operating effectiveness of the Bank's internal controls over expected credit loss allowance calculations including quality of underlying data, e.g. days past due and assigned credit ratings on a sample basis.

We analysed the assumptions underlying allocation of loans to customers to IFRS 9 stages. We tested accuracy of inputs to models used for calculation of probability of default and loss given default rates, such as days past due and recovery rates. In addition, we assessed how the Bank selected forward-looking macroeconomic scenarios and defined their probability weightings to derive economic inputs into the models.

For a sample of significant loans in Stage 3, we also tested the Bank's assumptions on expected cash flows for settlement of debt, including valuation of underlying collateral.

We analysed associated disclosures in Note 10 to the financial statements in respect of expected credit loss allowance on loans to customers and the Bank's management approach for assessing and managing credit risk in Note 28 to the financial statements.



Other information included in the Bank's Management Report and Annual Information of the Issuer of Securities for 2020

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the financial statements

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

In preparing the financial statements, 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 financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit 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 financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of 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 Audit Committee of 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, related safeguards.

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

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

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



In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, 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 Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's 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 financial statements on 21 July 2015 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is six years.

Consistency of the independent auditor's report with the additional report to the Audit committee of the Supervisory Board

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Supervisory Board of the Bank, which we issued on 31 March 2021 in accordance with Article 35 of Law No. 2258-VIII.



Provision of non-audit services

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



Movsesian L.S.
Auditor

Registration number in the Register of
auditors and audit firms: 101249

Kyiv, Ukraine

31 March 2021

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

STATEMENT OF FINANCIAL POSITION**As at 31 December 2020***(UAH thousands)*

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	7	35,287,994	46,412,441
Precious metals		2,401	1,428
Due from credit institutions	8	661,491	293,570
Derivative financial assets	9	5,186	8
Loans to customers and financial leases	10	47,517,583	38,985,679
Investments at fair value through other comprehensive income	11	56,034,056	30,410,368
Investment property	12	149,255	228,857
Property and equipment and intangible assets	13	1,348,538	1,433,633
Right-of-use assets	14	157,200	166,159
Other property	15	770,248	735,298
Current income tax assets		39,429	-
Other assets	18	729,351	469,802
Total assets		142,702,732	119,137,243
Liabilities			
Due to credit institutions	19	5,669,678	5,734,932
Derivative financial liabilities	9	227,651	43,624
Due to customers	20	126,498,709	103,359,581
Provisions for guarantees, commitments and legal risks	17, 22, 26	406,111	478,949
Lease liabilities	14	126,148	131,747
Current income tax liabilities		-	21,723
Deferred income tax liabilities	16	60,806	83,681
Other liabilities	18	1,164,798	1,028,522
Total liabilities		134,153,901	110,882,759
Equity			
Share capital	21	13,837,000	13,837,000
Acquired title of ownership to shares		(518,439)	(518,439)
Result from transactions with shareholders		(1,102,304)	(1,102,304)
Additional paid-in capital		135,942	135,942
Other provisions	21	687,554	830,986
Accumulated deficit		(4,490,922)	(4,928,701)
Total equity		8,548,831	8,254,484
Total equity and liabilities		142,702,732	119,137,243

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board



Andrii Kravets

Chief Accountant

Nataliia Ilnytska

31 March 2021

Usenko V.M.
+380 (44) 594-11-36*The accompanying notes on pages 6 to 72 are an integral part of these financial statements.*

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2020***(UAH thousands)*

	<i>Notes</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Interest income calculated using effective interest rate			
Loans to customers		4,649,123	5,667,839
Investments at fair value through other comprehensive income		3,545,675	2,936,018
Due from credit institutions		112,263	202,070
Deposit certificates of the National Bank of Ukraine		1,120,416	726,308
		9,427,477	9,532,235
Other interest income			
Loans to customers at fair value through other incomes/losses		14,815	-
Financial lease		133,971	131,702
		148,786	131,702
		9,576,263	9,663,937
Interest expense			
Due to the National Bank of Ukraine		-	(50,597)
Due to customers		(6,236,387)	(6,720,606)
Due to credit institutions		(106,736)	(135,797)
		(6,343,123)	(6,907,000)
Other interest expense			
Lease liability		(23,536)	(17,050)
		(23,536)	(17,050)
		(6,366,659)	(6,924,050)
Net interest income, before credit loss expense		3,209,604	2,739,887
Credit loss expense	7, 8, 10, 11, 26	(1,516,720)	(617,381)
Net interest income, after credit loss expense		1,692,884	2,122,506
Losses on initial recognition of financial assets		(172)	(1,787)
Change in fair value of loans to customers at fair value through profit or loss		(1,605)	-
Net fee and commission income	23	1,235,980	1,064,566
Net gains on derecognition of financial assets at amortized cost		7,831	407
Net losses on derecognition of financial liabilities		(152)	(1,121)
Gains on trading securities		-	11
Net gains on investments at fair value through other comprehensive income		148,404	65,771
Net gains on foreign exchange operations and precious metals	24	223,274	158,736
Result on operations with derivative financial instruments		182,060	141,878
Net gains on investment property		13,151	17,009
Other income	25	308,820	694,009
Non-interest income		2,117,591	2,139,479
Staff costs	27	(1,946,206)	(1,488,543)
Other operating expense	27	(1,072,290)	(1,186,764)
Depreciation and amortization	13	(316,017)	(292,518)
Depreciation of right-of-use assets		(66,279)	(38,088)
Change in allowance for impairment of assets and other provisions	26	101,821	88,900
Non-interest expense		(3,298,971)	(2,917,013)
Profit before income tax		511,504	1,344,972
Income tax expense	16	(100,465)	(55,976)
Net profit		411,039	1,288,996

The accompanying notes on pages 6 to 72 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	Notes	31 December 2020	31 December 2019
Other comprehensive income			
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
Revaluation of property and equipment		70,090	(31,595)
Income tax related to revaluation of property and equipment		(12,586)	5,687
		<u>57,504</u>	<u>(25,908)</u>
<i>Other comprehensive income that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(534,733)	1,332,211
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	21	(148,404)	(65,771)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	21	470,699	104,408
Income taxes related to revaluation of investments at fair value through other comprehensive income	21	38,242	(135,467)
		<u>(174,196)</u>	<u>1,235,381</u>
Other comprehensive income/(loss), after income tax		<u>(116,692)</u>	<u>1,209,473</u>
Total comprehensive income/(loss)		<u>294,347</u>	<u>2,498,469</u>
Weighted average number of shares (in thousands)		13,837,000	13,837,000
Basic and diluted net earnings per share (in UAH)		0.03	0.09

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board



Andrii Kravets

Chief Accountant

Natalia Ilnytska

31 March 2021

Usenko V.M.
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STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2020***(UAH thousands)*

	Notes	Share capital	Acquired title of ownership to shares	Result from transactions with shareholders	Additional paid-in capital	Other provisions	Accumulated deficit	Total capital
As at 1 January 2019		13,837,000	(518,439)	(1,102,304)	135,942	(347,763)	(6,248,421)	5,756,015
Total comprehensive income for the year		-	-	-	-	1,209,473	1,288,996	2,498,469
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income		-	-	-	-	59,353	(59,353)	-
Transfer as a result of disposal of assets		-	-	-	-	(90,077)	90,077	-
As at 31 December 2019		13,837,000	(518,439)	(1,102,304)	135,942	830,986	(4,928,701)	8,254,484
Total comprehensive income for the year	21	-	-	-	-	(116,692)	411,039	294,347
Transfer as a result of disposal of real estate		-	-	-	-	(26,662)	26,662	-
Transfer as a result of disposal of assets		-	-	-	-	(78)	78	-
As at 31 December 2020		13,837,000	(518,439)	(1,102,304)	135,942	687,554	(4,490,922)	8,548,831

Authorized and signed on behalf of the Bank's management by:

Chairman of the Management Board

Andrii Kravets

Chief Accountant

Nataliia Ilnytska

31 March 2021

Usenko V.M.
+380 (44) 594-11-36

STATEMENT OF CASH FLOWS (THE DIRECT METHOD)**For the year ended 31 December 2020***(UAH thousands)*

	<i>Notes</i>	2020	2019
Cash flows from operating activities			
Interest received		9,950,134	10,666,928
Interest paid		(6,508,752)	(6,757,390)
Fees and commissions received		1,579,670	1,345,311
Fees and commissions paid		(382,655)	(298,538)
Net result on foreign exchange operations and operations with precious metals (realized)	24	(71,823)	168,029
Result on operations with derivative financial instruments		371,342	159,265
Other income received		321,762	220,244
Staff costs		(1,885,900)	(1,454,261)
Other operating expense		(1,122,875)	(1,127,629)
Cash flows from operating activities before changes in operating assets and liabilities		2,250,903	2,921,959
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		4,262	452
Due from credit institutions		(157,784)	320,286
Loans to customers and financial leases		(12,785,916)	1,695,103
Other assets		(175,378)	103,128
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		(1,162,073)	(460,014)
Due to customers		17,180,970	45,101,518
Other liabilities		199,100	300,293
Net cash generated from operating activities before income taxes		5,354,084	49,982,725
Income taxes paid		(158,837)	-
Net cash generated from operating activities		5,195,247	49,982,725
Cash flows from investing activities			
Acquisition of securities		(720,396,119)	(231,286,990)
Proceeds on sale and repayment of securities		697,963,889	218,687,205
Acquisition of property and equipment and intangible assets		(227,609)	(212,379)
Proceeds on disposal of property and equipment		3,280	217,057
Proceeds on investment property		12,493	14,700
Proceeds on disposal of other property	15	2,985	646,806
Net cash used in investing activities		(22,641,081)	(11,933,601)
Cash flows from financing activities			
Proceeds of borrowed funds from credit institutions		1,402,766	1,624,312
Repayment of borrowed funds from credit institutions		(1,394,031)	(508,228)
Repayment of borrowed funds from the National Bank of Ukraine		-	(4,304,156)
Repayment of lease liability principal amount		(62,858)	(73,558)
Net cash used in financial activities	33	(54,123)	(3,261,630)
Effect of exchange rate changes on cash and cash equivalents		6,374,453	(2,409,504)
Effect of expected credit losses on cash and cash equivalents		1,057	(984)
Net increase in cash and cash equivalents		(11,124,447)	32,377,006
Cash and cash equivalents at the beginning of the period		46,412,441	14,035,435
Cash and cash equivalents at the end of the period	7	35,287,994	46,412,441

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31 March 2021

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The accompanying notes on pages 6 to 72 are an integral part of these financial statements.

(in thousands of Hryvnias, unless otherwise indicated)

1. General information

Organizational structure and operations

PUBLIC JOINT-STOCK COMPANY JOINT STOCK BANK "UKRGASBANK" (the "Bank") was established on 21 July 1993 based on the merger of several commercial banks. Since June 2009, the Government of Ukraine controls over the Bank by holding a majority stake of its share capital.

The Bank is engaged in accepting deposits from individuals and legal entities and extending loans, transferring payments in Ukraine and abroad, exchanging currencies and providing other banking services to its corporate and retail customers. The Bank's Head Office is located in Kyiv. As at 31 December 2020, the Bank's network consisted of 278 registered outlets (including 278 operating outlets) (2019: 250 registered outlets, including 250 operating outlets) in different regions of Ukraine. The Bank's registered address is: 1 Yerevanska St., Kyiv, Ukraine. The Bank's Head Office is located at: 16-22 Bohdana Khmelnytskoho St., Kyiv, Ukraine.

When implementing the Green Banking Strategy, the priority activity of the Bank is to finance projects related to efficient use of energy resources and reduction of negative environmental impact.

At present, the Bank is the only bank in Eastern Europe with its own technical office involved in professional analysis of alternative energy and energy efficiency projects.

The Bank finances eco-projects on renewable energy, energy efficiency and ecology.

The Bank has implemented an environmental management system based on sustainable development principles and standards of the International Financial Corporation (PS IFC).

As at 31 December 2020 and 2019, the Bank's issued shares were held by the following shareholders:

Shareholder	31 December 2020, %	31 December 2019, %
Ministry of Finance of Ukraine	94.94	94.94
Other	5.06	5.06
Total	100.00	100.00

As at 31 December 2020 and 2019, the Bank's ultimate controlling party was the Ukrainian government represented by the Ministry of Finance of Ukraine.

These annual financial statements have been authorized for issue and signed by the Bank's management on 31 March 2021.

2. Operating environment and going concern

The Bank operates in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

On 4 September 2020, Fitch Ratings, a credit rating agency, confirmed the long-term issuer default rating of Ukraine (IDR) in foreign and national currencies at the level of "B" with a stable outlook. On 11 September 2020, Standard & Poor's Global Ratings, a credit rating agency, confirmed the long-term and short-term sovereign credit rating of Ukraine in foreign and national currencies at the level of "B/B" with a stable outlook.

On 10 December 2020, the National Bank of Ukraine ("the NBU") decided to keep the discount rate unchanged at 6% per annum. The NBU's monetary policy will continue to depend primarily on the development of the epidemic situation and inflation risks. With the rapid stabilization of the epidemic situation, the economy will continue to recover, which will be accompanied by a moderate acceleration of inflation. At the same time, the NBU, although pursuing a soft monetary policy, is also ready to respond by raising the discount rate to accelerate inflation amid the recovery of the world and Ukrainian economies. The main assumption for the application of soft monetary policy by the NBU is the continuation of cooperation with the International Monetary Fund.

(in thousands of Hryvnias, unless otherwise indicated)

2. Operating environment and going concern (continued)

A key risk to macro-financial stability remains the longer duration and deepening of the coronavirus pandemic (COVID-19) and the strengthening of quarantine measures. Other risks also remain relevant, such as the escalation of the military conflict, the increase in the volatility of world food prices due to global climate change, and so on. In the fourth quarter of 2020, there was a gradual recovery of Ukraine's economy, after a significant decline in the second quarter of 2020 due to strict quarantine restrictions and declining consumer and investment demand. In the fourth quarter of 2020, due to the deteriorating epidemic situation and the tightening of quarantine restrictions, economic recovery slowed. Deteriorating sentiment in global financial markets due to the coronavirus pandemic and investors' reassessment of developing countries' risks could have a negative impact on Ukraine's economy and foreign trade, complicate funding, negatively affect the country's banking system and lead to further devaluation of the national currency.

Management monitors the current situation with the spread of coronavirus and quarantine and takes measures, if necessary, to minimize any negative consequences as much as possible. Further adverse developments and macroeconomic conditions may adversely affect the financial position and performance of the Bank in a manner that cannot be determined at this time.

While preparing these financial statements, the known and estimated results of the above factors on the financial position and operating results of the Bank's in the reporting period have been taken into account.

3. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and the requirements of Law of Ukraine *On Accounting and Financial Reporting in Ukraine* No. 996-XIV dated 16 July 1999, concerning the preparation of financial statements.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for buildings that are carried at revalued amount, investment property carried at fair value, assets held for sale, which are carried at the lower of carrying amount or fair value less cost to sell, and financial instruments measured at fair value, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date, regardless of whether that price is directly observable in the market or is estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability as if the market participants took those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on this basis, except for leases that are within the scope of IFRS 16 *Leases* and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Ukrainian Government, introduced various measures to combat the outbreak, including territorial quarantine zones with introduction of travel restrictions, prohibited or restricted operations of enterprises other quarantine measures. These measures have affected the demand for goods and services, as well as scale of business activity. It is expected that the pandemic itself as well as the related public health and social measures may influence the business of entities in a wide range of industries across Ukraine. The Government of Ukraine and the National Bank of Ukraine have taken a number of measures to mitigate a significant economic downfall caused by the COVID-19 pandemic. These measures include credit holidays for individuals and businesses, a ban on raising interest rates on consumer loans and a ban on penalties, fines, etc. for overdue loans, borrowers' loans restructuring, easing and delaying the introduction of certain regulatory restrictions to help the financial sector maintain its capabilities to provide financial resources to customers to avoid liquidity shortages of businesses as a result of the COVID-19 containment measures.

The Bank continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results. Information on the effect of changes in the Bank's approaches to determining expected credit losses is provided in Note 1 and Note 28.

(in thousands of Hryvnias, unless otherwise indicated)

3. Basis of preparation (continued)

Going concern

These financial statements have been prepared using the assumption that the Bank is able to continue its operations on an ongoing basis in the near future. The Management and shareholders have the intention to continue economic activities of the Bank in Ukraine. The Management believes that the use of assumption about the Bank's ability to continue its operations on an ongoing basis is reasonable, given the proper level of its capital adequacy, the obligations of shareholders to fulfil their liabilities, including those related to participation in the Bank's equity, as well as on the basis of historical experience, which indicates that short-term liabilities will be refinanced in the course of ordinary business.

Functional and presentation currency

These financial statements are presented in thousands of Hryvnias, unless otherwise indicated. The Bank's functional and presentation currency is Hryvnia ("UAH").

4. Summary of accounting policies

Changes in accounting policies

The Bank has early adopted Amendment to IFRS 16: *COVID-19-Related Rent Concessions*, which provides lessees with a relief from assessing whether a COVID-19-related rent concession is a lease modification. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Bank also applied the amendments that became effective starting 1 January 2020 but had no impact on the Bank's financial statements. The nature and impact of each amendment is described below:

Amendments to IAS 1 and IAS 8 Definition of Material

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

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence the decisions made by the primary users. These amendments did not affect, and are not expected to affect in future, the Bank's financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein should 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. The revision of this document did not affect the Bank's financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recognized in the Bank's functional currency at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates effective at the reporting date. The foreign currency gains or losses are recognized in the statement of profit or loss and other comprehensive income as a net result of foreign exchange operations. Non-monetary assets and liabilities in foreign currencies at fair value are translated into UAH at the exchange rates effective at the fair value measurement date. Non-monetary items at historical cost in a foreign currency are translated using the exchange rates prevailing at the transaction dates.

The differences between a contractual exchange rate on a specific transaction in a foreign currency and the official exchange rate established by the National Bank of Ukraine at the date of such a transaction are also included in the result of trading activities in foreign currencies.

*(in thousands of Hryvnias, unless otherwise indicated)***4. Summary of accounting policies (continued)****Foreign currency translation (continued)**

The official exchange rates of the National Bank of Ukraine used in the preparation of these financial statements are as follows:

Currency	31 December 2020	31 December 2019
USD	28.2746	23.6862
EUR	34.7396	26.4220

Financial assets and liabilities***Initial recognition****Date of recognition*

All regular way purchases and sales of financial assets and liabilities are recognized on the date of transaction, i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require the delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, including transaction costs, except when financial assets and financial liabilities are measured at fair value through profit or loss.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortized cost;
- ▶ Fair value through other comprehensive income (FVOCI);
- ▶ Fair value through profit or loss (FVPL).

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Due from credit institutions, loans to customers and finance leases, and other financial investments

The Bank measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost only if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ 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 (SPPI).

The details of these conditions are outlined below.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Foreign currency translation (continued)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are remunerated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Bank's business model assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Solely payments of principal and interest test (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of financial asset to identify whether there are cash flows relating thereto exclusively in payments against principal and interest on the principal amount outstanding (the so-called SPPI test).

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are related to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

Under IFRS 9 the Bank measures the debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in fair value recognized in other comprehensive income (OCI). Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position. Instead, an amount equal to the allowance for expected losses that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to the profit or loss upon derecognition of the asset.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Foreign currency translation (continued)

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and undrawn loan commitments.

Financial guarantees are initially recognized 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 initially recognized less cumulative amortization recognized in the statement of profit or loss and ECL allowance.

Undrawn loan commitments and letters of credit are commitments, under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the ECL allowance amount and the initially recognized amount less, where appropriate, the cumulative amount of income recognized.

Performance guarantees

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

Government grants

Government grants in the form of non-financial assets from the public authorities are recognized at net present value of future cash flows related to interest income compensation. Loss on initial recognition of preferential loans is presented on a net basis of revenue recognition of government grants in the profit or loss and other comprehensive income.

Further accounting for receivables for government grants is carried at amortized cost using the effective interest method and is subject to impairment with subsequent recognition of income and expenses in the profit or loss and other comprehensive income if the instrument is derecognized or if it was impaired or amortized.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash balances with the National Bank of Ukraine, due from credit institutions with maturities up to 90 days from the date of origination that are free from contractual encumbrances, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes and are used by the Bank to manage its short-term commitments, including the overnight deposit certificates issued by the National Bank of Ukraine.

Due from credit institutions

In the normal course of business, the Bank grants loans or maintains deposits for various periods of time with other credit institutions. Due from credit institutions is initially measured at fair value. Due from credit institutions with fixed maturities is measured at amortized cost using the effective interest rate method and is accounted net of expected credit losses.

Precious metals

Precious metals are stated at the lower of net realizable value or cost. The net realizable value of precious metals is based on quoted market prices. Foreign currency revaluation effect is recognized as translation differences on transactions with precious metals within "Net gains on foreign exchange operations and precious metals" of the statement of profit or loss and other comprehensive income.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements

Sale and repurchase agreements of securities ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the counterparty has the right by contract or common practice to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within due to credit institutions or customers. Securities purchased under agreements to resell (reverse repurchase agreements or "reverse repo") are recorded as due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest income or expense and accrued over the life of repo agreements using the effective interest rate method.

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

Derivative financial instruments

In the course of its ordinary activities, the Bank uses various derivative financial instruments, including forward contracts and swaps in foreign exchange markets, which are concluded predominantly with Ukrainian banks. Derivative instruments are initially recognized at fair value at the date of the contract, after which they are revalued at fair value. All derivative instruments are recognized as assets when their fair value is positive and as liabilities if their fair value is negative.

Changes in the fair value of derivative instruments are recognized immediately within "Result on operations with derivative financial instruments" of the statement of profit or loss and other comprehensive income. The Bank evaluates and calculates the fair value of forward contracts and recognizes its material changes in profit or loss.

Though the Bank performs the trade operations with derivative instruments for the purposes of hedging, these instruments do not meet the criteria of hedge accounting.

Embedded derivative financial instruments

The Bank accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Borrowed funds

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 credit institutions and due to customers. Upon initial recognition, borrowed funds are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the borrowed funds are derecognized, as well as through the amortization process.

Leases

The Bank as a lessee

The Bank applies a single approach to the recognition and measurement of all leases other than short-term and low-value asset leases. The Bank recognizes a lease liability in respect of the lease payments and right-of-use assets that are rights to use the underlying assets.

Right-of-use assets

The Bank recognizes the right-of-use assets at the commencement date of a lease (i.e., the date on which the underlying asset becomes available for use). The right-of-use assets are measured at initial cost, less accumulated depreciation and accumulated impairment losses, and adjustments for the revaluation of the lease liability. The initial cost of the right-of-use assets consists of the amount of the initial estimate of the lease liability, the initial direct costs and the lease payments made at the commencement date of a lease or prior to the commencement date of a lease, less the received lease incentives. If the Bank does not have sufficient confidence that it will acquire title to the underlying asset at the end of the lease term, the recognized right-of-use asset is amortized on a straight-line basis prior to the earlier of the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are tested for impairment.

*(in thousands of Hryvnias, unless otherwise indicated)***4. Summary of accounting policies (continued)****Leases (continued)***Lease liability*

At the commencement date of a lease the Bank recognizes the lease liability at the present value of the lease payments that will be made during the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives to be received; variable lease payments that depend on the index or rate; and the amounts to be payable under residual value guarantees. Lease payments also include the exercise price of the option to purchase, if there is reasonable assurance that the Bank will take advantage of that opportunity, and the payment of penalties for terminating the lease, if the lease term reflects the potential option of termination of the lease. Variable payments, which do not depend on the index or rate, are recognized as expenses in the period, in which the event or condition occurs that gives rise to such payments.

To calculate the present value of the lease payments, the Bank applies the lessee's incremental borrowing rate at the commencement date of a lease, if the interest rate implicit in the lease cannot be easily determined. After the lease takes effect, the lease liability increases to reflect the interest accrual and decreases to reflect the lease payments made. Also, in the event of modification, change of the lease term, change in the essence of fixed lease payments or change of option of purchase of the underlying asset, the carrying value of the lease liabilities is revalued.

Short-term and low-value asset leases

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. up to UAH 150 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Operating leases – Bank as a lessor

Leases for which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is recognized on a straight-line basis over the lease term and is included in net income from investment property in the statement of profit or loss and other comprehensive income. Initial direct costs incurred in the process of negotiating and concluding operating leases are included in the carrying amount of the leased asset and are recognized over the lease term on the same basis as lease income. Contingent lease payments are recognized as income in the period in which they were received.

Finance leases – 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 based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Expected credit losses

The Bank performs estimation of expected credit losses for financial assets measured at amortized cost or at fair value through other comprehensive income, for financial guarantees, letters of credit and undrawn loan commitments.

According to the general approach, depending on whether the financial instrument's credit risk has increased significantly since initial recognition, the Bank allocates its financial instruments to one of the stages described below:

- ▶ Stage 1: financial instruments for which there are no signs of a significant increase in credit risk. For these financial instruments, the Bank recognizes an allowance based on the 12-month expected credit loss;
- ▶ Stage 2: financial instruments for which there are signs of a significant increase in credit risk since the initial recognition, but no signs of impairment exist. For these financial instruments, the Bank recognizes the credit loss for the lifetime of such financial instruments;
- ▶ Stage 3: financial instruments for which there are signs of a significant increase in credit risk since the initial recognition and the objective evidence of impairment exists. For these financial instruments, the Bank recognizes the expected credit loss for the lifetime of such financial instruments;
- ▶ POCI: purchased or originated credit impaired (POCI) assets – financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL allowances are only recognized or derecognized to the extent that there is a subsequent change in the expected credit losses for the lifetime of the financial instrument.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Expected credit losses (continued)

Renegotiated loans and/or modifications

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring, i.e. change in significant terms and conditions under the original agreement by entering into additional arrangements with a debtor due to its financial difficulties (as determined by the Bank) and the need to create favourable conditions for it to meet its obligations under the asset (change in interest rate; cancellation, wholly or in part, of financial sanctions (penalties, fines, forfeits) accrued for untimely payments of the principal and interest amounts and failed to be repaid by the debtor; change in the repayment schedule (terms and amounts of the principal, interest/fees); change in the fee amount etc.).

As a result of significant changes in the terms of the loan agreement, the Bank repurchases the original financial instrument and recognizes the new financial instrument.

The Bank determines the following modifications to contractual cash flows for financial instruments as significant:

- ▶ The conditions (except those related to commercial restructuring) under which the net present value of the cash flows under the new terms discounted using the original effective interest rate (for a financial asset or liability with floating interest rate – the effective interest rate that was calculated at the latest change in the nominal interest rate) differs by at least 10% of the discounted present value of remaining cash flows of the original financial asset or liability;
- ▶ Change of the currency of the financial instrument;
- ▶ Change in the type of interest rate of a financial instrument (fixed to floating or vice versa);
- ▶ Consolidation of several financial instruments or a financial instrument split into several ones.

Similarly, with respect to financial assets, the Bank determines the following modification of contractual cash flows as material:

- ▶ The inclusion in the contract of the additional terms / exclusion of terms / changes in the terms of the contract that affect the result of SPPI test.

In case of significant modification, the Bank derecognizes an initial financial asset and recognizes a new financial asset. At the modification date, the Bank recognizes a new financial asset at its fair value taking into account transaction costs associated with the origination of a new financial asset (with the exception of a new asset measured at fair value through profit or loss) and determines the amount of the 12-month expected credit loss.

If, as a result of the modification, a new financial asset is impaired at initial recognition, the Bank recognizes the cumulative changes in the expected credit losses for the lifetime of this financial asset.

The Bank continually analyses restructured loans to ensure that all criteria and options for future payments are met.

In cases where the modification of contractual cash flows does not result in derecognition of the original financial asset (i.e. when the modification of contractual cash flows is not substantial), the Bank continues to apply current approach to accounting for the financial asset with the modified contractual terms. Subject to changes in contractual cash flows, discounted at the original effective interest rate, the Bank recognizes income or expenses from the modification that are included in other income / expenses in the statement of profit or loss and other comprehensive income.

Write-off of loans

Loans are written off using the expected credit loss allowance based on the decision of the Management Board.

The Bank recognizes bad debts on active banking transactions, for which there are no reasonable expectations for the recovery of financial assets/repayment of trade receivables and which meet one of the evidence of bad debts in accordance with the Tax Code of Ukraine and writes off such bad debts in financial and/or tax accounting against the respective allowance.

Subsequent recoveries of amounts previously written off are reflected as other income in the statement of profit or loss and other comprehensive income in the period of recovery.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Write-off of loans (continued)

Investments 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 being measured at fair value. Instead, an amount equal to the allowance for expected credit losses that would arise were the assets measured at amortized cost is recognized in OCI as an accumulated impairment amount, with the corresponding charge to profit or loss. The accumulated credit loss recognized in OCI is reclassified to the profit and loss upon derecognition of the asset.

Non-financial assets

Other non-financial assets, other than deferred tax, are assessed at each reporting date for any indication of impairment. The recoverable amount of non-financial assets is the greater of their fair value, less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Derecognition of financial assets and financial liabilities

Financial assets

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

- ▶ The rights to receive cash flows from the 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;
- ▶ The Bank either (a) has substantially transferred 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.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement of the Bank is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

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 recognized in profit or loss.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Taxation

The current income tax charge is calculated in accordance with the Ukrainian tax regulations.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income, because it excludes the items of income or expense that are taxable or deductible in other years, and it further excludes the items that are never taxable or deductible. The Bank's taxable profit is determined by adjusting the financial result, which is presented in the Bank's financial statements in accordance with the International Financial Reporting Standards, for the differences arising under the Tax Code of Ukraine. The Bank's current tax expense is calculated using tax rates that have been enacted during such reporting periods.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet liability method. Deferred income tax is 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 a taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates set by the tax legislation of Ukraine in the respective reporting periods.

Also, Ukrainian tax regulations include other taxes and duties. These taxes are included in administrative and operating expense.

Investment property

Investment property, which consists of office premises, is the property held to earn rentals from long-term leases or for capital appreciation and is not occupied by the Bank. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, which is based on the market evidence as a result of valuations performed by independent appraisers, less any subsequently accumulated impairment losses. Revaluation is performed with sufficient regularity so that the carrying amounts did not differ significantly from those arrived at using fair value as at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Property and equipment

Property and equipment, other than buildings and land plots, is carried at its historical cost, less any accumulated depreciation and recognized impairment losses, if any.

Upon the initial recognition at cost, buildings and land plots are carried at their revalued amounts, which are the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is 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 included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. In this case, the increase is recognized in profit or loss. A revaluation deficit is recognized in profit and loss, except that a deficit directly offsetting a previous surplus on the same asset which is directly offset against the surplus in the property and equipment revaluation reserve.

In addition, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins on the first day of the month following the month in which the item of property, equipment and intangible assets became available for use and ceases on the first day of the month following the month in which the item of property, equipment and intangible assets is disposed of.

Depreciation of property, equipment and intangible assets is calculated based on the new useful life, starting from the month following the month of change in the useful life.

*(in thousands of Hryvnias, unless otherwise indicated)***4. Summary of accounting policies (continued)****Property and equipment (continued)**

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and equipment	3-10
Leasehold improvements	Over the relevant lease period
Motor vehicles	5

Residual value, useful lives, and depreciation methods are reviewed at the end of each reporting year and adjusted as appropriate.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expense, unless they qualify for capitalization.

Intangible assets

Intangible assets include the acquired computer software. Intangible assets acquired separately are measured on initial recognition at cost. Upon initial recognition, intangible assets are carried at cost, less any accumulated amortization 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 amortized over the useful economic lives of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

An item of property and equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on the disposal of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

Other property

The non-current assets, which have been acquired by foreclosure of collateral and are held for further sale, are recognized by the Bank as other property. These assets do not qualify for recognition as assets held for sale and cannot be recognized as non-current assets to be used in the Bank's ongoing operations or as investment property. These assets are measured at the lower of cost or net realizable value.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle an obligation are expected to be recovered from a third party fully or partially, receivables are recognized to the extent it is virtually certain that reimbursement will be received and the amount of the receivables can be measured reliably.

Retirement and other benefit obligations

The Bank has pension arrangements to the state pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of gross salary payments. Such expense is charged in the period, in which the related salaries are earned.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Share capital and other reserves

Ordinary and preference shares are carried in equity.

Acquired title of ownership to shares of the Bank's own issue is deducted directly from equity. A gain or loss arising from purchase, sale, issue or cancellation of the Bank's treasury shares is not included in profit or loss.

The surplus of consideration received over the nominal value of shares issued is reflected as additional paid-in capital.

Other reserves included in equity (other comprehensive income) in the Bank's statement of financial position comprise a revaluation reserve of investments measured at fair value through other comprehensive income and a revaluation reserve of buildings that includes a revaluation reserve of land plots and buildings.

Profit or loss arising from transactions with the Bank's shareholders is recognized in equity as "Result from transactions with shareholders".

Segment reporting

The Bank's segment reporting is based on the following operating segments: individuals (retail banking), legal entities (corporate banking), clients of small and medium-sized enterprises (SME), financial institutions, asset management, and other.

Contingencies

Contingent liabilities are not recognized in the statement of financial position. The information about such liabilities is disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position. The information about such assets is disclosed when an inflow of economic benefits is probable.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank, and the revenue can be reliably measured.

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Bank considers all paid and/or received fees, duties, and transaction costs that form an integral part of income/expense on the financial instrument, in particular:

- a) Financial instrument origination fees received/paid by the Bank and related to origination or acquisition of such a financial instrument;
- b) Fees received/paid by the Bank on lending arrangements in the course of loan origination or acquisition as consideration for participation in the financial instrument's acquisition if it is probable that a loan commitment will lead to a specific lending arrangement;
- c) Fees received/paid by the Bank when issuing debt securities that are accounted for at amortized cost.

Revenue on debt financial instruments is carried using the effective interest rate method, except for financial assets measured at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest received from the assets measured at fair value is classified as interest income.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Revenue and expense recognition (continued)

Fee and commission income and expense (hereinafter, "fees") is income and expense related to the services rendered/received, which amount is calculated pro rata to the amount of an asset or liability or is fixed.

Where it is probable that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement or loan tranche, the loan commitment fees are recognized in the statement of profit or loss and other comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a specific lending arrangement or loan tranche, the loan commitment fee is recognized in the statement of profit or loss and other comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized after the applicable services have been provided.

Other revenue is recognized in profit or loss as soon as the applicable transaction has been completed.

Application of new and revised International Financial Reporting Standards ("IFRS")

Adoption of new and revised IFRS

The following new standards and interpretations were issued, but not yet effective on the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. 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.

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 record 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 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 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) 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 will be effective for annual periods beginning on or after 1 January 2023, with comparative information required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 at the date of initial application. The Bank continues to assess the effect that the application of IFRS 17 may have on its financial statements.

(in thousands of Hryvnias, unless otherwise indicated)

4. Summary of accounting policies (continued)

Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

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 the 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.

This amendment will be effective for the annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. The Bank 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 Bank first applies this amendment. It is expected that this amendment will not have a material impact on the Bank's 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 the *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 starting January 2021.

5. Significant accounting judgments and estimates

The preparation of financial statements in compliance with IFRS requires that Bank's management make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is as follows.

Key estimates in applying accounting policies

Fair value of financial instruments

Investments measured at fair value through other comprehensive income, loans to customers measured at fair value through profit or loss and derivative financial instruments are stated at fair value.

The Bank considers that the accounting estimates and assumptions related to valuation of financial instruments where quoted market prices are not available are the key source of estimation uncertainty, because: (a) they are highly susceptible to change from period to period because they require that management make assumptions about interest rates, volatility, exchange rates, credit rating of a counterparty, valuation adjustments and specific feature of the transactions and (b) the impact that recognition of a change in valuations would have on the assets reported in the statement of financial position as well as its income/expense could be material.

Had management used different assumptions regarding interest rates, volatility, exchange rates, credit rating of a counterparty, offer date and valuation adjustments, their value could differ significantly from that reflected in the financial statements.

*(in thousands of Hryvnias, unless otherwise indicated)***5. Significant accounting judgments and estimates (continued)****Key estimates in applying accounting policies (continued)***Expected credit loss allowance*

The measurement of impairment losses under IFRS 9 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 impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios and trade receivables (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on the Bank's ECL measurement.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions 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 LTECL basis and the qualitative assessment;
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 10 and 28.

Fair value of buildings and land plots

As discussed in Note 4, buildings and land plots are carried at revalued amount, less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the comparative approach to evaluation. The comparative approach to evaluation is based on an analysis of the results of comparable sales of similar buildings. The estimation of the fair value of buildings and land plots requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property.

6. Segment information

For management purposes, the Bank has defined five operating segments based on its products and services, which are as follows:

Legal entities:	Mainly granting purpose loans, servicing deposits and current accounts for corporate and institutional customers.
Clients of small and medium-sized enterprises (hereinafter – "SME"):	Mainly customer servicing under targeted lending programs, deposits and current accounts of customers whose activities meet certain criteria and limits.
Individuals:	Mainly servicing individual customers' deposits and granting consumer loans, overdrafts, handling credit cards and funds transfer facilities.
Financial institutions:	Mainly placing funds with and attracting funds from other financial institutions.
Asset management and other:	Finance and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance measurement. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

*(in thousands of Hryvnias, unless otherwise indicated)***6. Segment information (continued)**

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance, in accordance with IFRS 8 *Operating Segments*. Management reviews discrete financial information for each of its segments, including estimates of operating results, assets, and liabilities. The segments are managed primarily on the basis of their performance, without analysing intersegment funding and income and expense arising between them.

During 2020, the Bank received revenue from the loan transactions with one client in the amount of UAH 538,908 thousand. During 2019, the Bank received revenue from the loan transactions with one client in the amount of UAH 1,131,987 thousand.

The following tables summarize income and profit and certain other assets and liabilities information regarding the Bank's operating segments.

31 December 2020	Legal entities	SME	Individuals	Financial institutions	Asset management and other	Total
Income						
Interest income	3,587,502	667,989	542,418	112,263	4,666,091	9,576,263
Fee and commission income	573,937	338,197	563,920	94,749	47,834	1,618,637
Net gains on foreign exchange operations and precious metals	78,284	3,411	102,340	-	39,239	223,274
Result on operations with derivative financial instruments	-	-	-	-	182,060	182,060
Net gains on investment property	-	-	-	-	13,151	13,151
Net gains/(losses) on derecognition of financial assets at amortized cost	926	994	5,911	-	-	7,831
Net gains on investments at fair value through other comprehensive income	-	-	-	-	148,404	148,404
Change in allowance for impairment of other assets and other provisions	104,090	(1,479)	2,924	-	(3,714)	101,821
Other income	32,795	30,414	167,325	-	78,286	308,820
Total income	4,377,534	1,039,526	1,384,838	207,012	5,171,351	12,180,261
Expenses						
Interest expense	(4,070,229)	(562,000)	(1,604,158)	(106,736)	(23,536)	(6,366,659)
Fee and commission expense	(68,909)	(21,018)	(171,372)	(98,903)	(22,455)	(382,657)
Credit loss expense	(474,920)	(631,644)	57,946	2,596	(470,698)	(1,516,720)
Net gains/(losses) on derecognition of financial liabilities	(12)	(100)	(40)	-	-	(152)
Losses on initial recognition of financial assets	-	-	(172)	-	-	(172)
Staff costs	(516,522)	(295,438)	(841,630)	(101,208)	(191,408)	(1,946,206)
Depreciation and amortization	(81,580)	(32,577)	(184,256)	(3,550)	(14,054)	(316,017)
Depreciation of right-of-use assets	(10,602)	(4,645)	(30,893)	(383)	(19,756)	(66,279)
Result from operations with loans to customers at fair value through profit or loss	-	(1,605)	-	-	-	(1,605)
Other operating expense	(130,293)	(86,777)	(618,139)	(30,541)	(206,540)	(1,072,290)
Total expenses	(5,353,067)	(1,635,804)	(3,392,714)	(338,725)	(948,447)	(11,668,757)
Segment results	(975,533)	(596,278)	(2,007,876)	(131,713)	4,222,904	511,504
Income tax expense					(100,465)	(100,465)
Profit for the period					4,122,439	411,039
Segment assets	37,969,051	7,127,077	3,889,716	24,869,575	68,847,313	142,702,732
Segment liabilities	(85,473,291)	(11,559,750)	(29,743,387)	(5,669,678)	(1,707,795)	(134,153,901)
Other segment information						
Capital expenditures	60,109	22,314	129,091	2,044	6,130	219,688

*(in thousands of Hryvnias, unless otherwise indicated)***6. Segment information (continued)**

31 December 2019	Legal entities	SME	Individuals	Financial institutions	Asset management and other	Total
Income						
Interest income	4,659,011	620,693	519,837	202,070	3,662,326	9,663,937
Fee and commission income	496,311	260,415	494,269	79,234	32,876	1,363,105
Gains on trading securities	-	-	-	-	11	11
Net gains on foreign exchange operations and precious metals	19,395	3,786	78,692	-	56,863	158,736
Result on operations with derivative financial instruments	-	-	-	-	141,878	141,878
Net gains on investment property	-	-	-	-	17,009	17,009
Net gains/(losses) on derecognition of financial assets at amortized cost	401	-	6	-	-	407
Net gains on investments at fair value through other comprehensive income	-	-	-	-	65,771	65,771
Change in allowance for impairment of other assets and other provisions	208,957	2,142	(36,166)	(25)	(86,008)	88,900
Other income	83,971	32,541	119,421	-	458,076	694,009
Total income	5,468,046	919,577	1,176,059	281,279	4,348,802	12,193,763
Expenses						
Interest expense	(4,412,767)	(605,511)	(1,702,328)	(186,394)	(17,050)	(6,924,050)
Fee and commission expense	(57,301)	(15,114)	(132,858)	(80,304)	(12,962)	(298,539)
Credit loss expense	(408,443)	(94,211)	(8,817)	(1,502)	(104,408)	(617,381)
Net gains/(losses) on derecognition of financial liabilities	(825)	-	(296)	-	-	(1,121)
Losses on initial recognition of financial assets	-	-	(1,787)	-	-	(1,787)
Staff costs	(407,123)	(227,944)	(693,120)	(32,896)	(127,460)	(1,488,543)
Depreciation and amortization	(64,204)	(26,074)	(182,430)	(3,560)	(16,250)	(292,518)
Depreciation of right-of-use assets	(6,171)	(3,061)	(19,865)	(388)	(8,603)	(38,088)
Other operating expense	(194,735)	(88,255)	(641,500)	(28,974)	(233,300)	(1,186,764)
Total expenses	(5,551,569)	(1,060,170)	(3,383,001)	(334,018)	(520,033)	(10,848,791)
Segment results	(83,523)	(140,593)	(2,206,942)	(52,739)	3,828,769	1,344,972
Income tax expense					(55,976)	(55,976)
Profit for the period					3,772,793	1,288,996
Segment assets	31,584,619	5,187,405	3,678,183	27,769,693	50,917,343	119,137,243
Segment liabilities	(68,013,925)	(8,272,059)	(27,441,390)	(5,734,932)	(1,420,453)	(110,882,759)
Other segment information						
Capital expenditures	64,664	26,677	133,723	2,991	7,021	235,076

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020	31 December 2019
Current accounts with other credit institutions	24,195,659	26,511,949
Current accounts with the National Bank of Ukraine	4,913,458	9,151,774
Deposit certificates of the National Bank of Ukraine (overnight)	3,500,478	8,110,208
Cash on hand	2,681,923	1,695,604
Time deposits with credit institutions with maturities up to 90 days	-	947,487
	35,291,518	46,417,022
Less: expected credit losses	(3,524)	(4,581)
Cash and cash equivalents	35,287,994	46,412,441

The current accounts with the National Bank of Ukraine represent the amounts for daily settlements and other operations of the Bank. There are no restrictions of access to the funds placed on the current accounts with the National Bank of Ukraine.

*(in thousands of Hryvnias, unless otherwise indicated)***7. Cash and cash equivalents (continued)**

As at 31 December 2020, the obligatory reserves estimated in accordance with the requirements of the National Bank of Ukraine amounted to UAH 6,797,628 thousand (2019: UAH 4,894,107 thousand).

As at 31 December 2020 and 2019, the Bank complied with the requirements of the National Bank of Ukraine regarding the obligatory reserve amounts.

Changes in expected credit losses during 2020 and 2019 were as follows:

	Stage 1
As at 1 January 2020	4,581
New assets originated or purchased	7
Assets repaid	(3)
Changes in expected credit losses	(2,510)
<i>Total credit loss expense before transition difference</i>	<i>(2,506)</i>
Exchange differences	1,449
As at 31 December 2020	3,524
	Stage 1
As at 1 January 2019	3,597
New assets originated or purchased	72
Assets repaid	(1,784)
Changes in expected credit losses	3,362
<i>Total credit loss expense before transition difference</i>	<i>1,650</i>
Exchange differences	(666)
As at 31 December 2019	4,581

8. Due from credit institutions

Due from credit institutions comprise:

	31 December 2020	31 December 2019
Reverse REPO agreements	639,611	253,229
Other amounts due from credit institutions	22,164	40,673
Time deposits with maturities over 90 days or overdue	11,228	9,406
	673,003	303,308
Less: expected credit losses	(11,512)	(9,738)
Due from credit institutions	661,491	293,570

As at 31 December 2020, the overdue balance of due from credit institutions amounted to UAH 11,228 thousand (2019: UAH 9,406 thousand).

As at 31 December 2020, due from credit institutions in the amount of UAH 536,765 thousand (or 79.76% of the total amount due from credit institutions) was placed with three banks (2019: UAH 253,229 thousand with three banks, or 83.49% of the total amount due from credit institutions).

As at 31 December 2020, reverse REPO agreements were secured by UDGB with the fair value of UAH 779,263 thousand (2019: UAH 291,455 thousand).

Other amounts due from credit institutions include guarantee deposits placed mainly for customer transactions, such as letters of credit, guarantees, performance guarantees and transactions with travel checks and payments cards.

*(in thousands of Hryvnias, unless otherwise indicated)***8. Due from credit institutions (continued)**

Analysis of changes in the gross carrying value for the year ended 31 December 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	293,902	–	9,406	303,308
New assets originated or purchased	1,382,586	–	–	1,382,586
Assets repaid	(1,018,683)	–	–	(1,018,683)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Exchange differences	3,970	–	1,822	5,792
As at 31 December 2020	661,775	–	11,228	673,003

Analysis of changes in the gross carrying value for the year ended 31 December 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	727,624	–	729,512	1,457,136
New assets originated or purchased	1,668,150	–	–	1,668,150
Assets repaid	(2,065,796)	–	–	(2,065,796)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	–	–
Write-off	–	–	(718,517)	(718,517)
Exchange differences	(36,076)	–	(1,589)	(37,665)
As at 31 December 2019	293,902	–	9,406	303,308

Changes in expected credit losses for the year ended 31 December 2020 were as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	332	–	9,406	9,738
New assets originated or purchased	180	–	–	180
Assets repaid	(270)	–	–	(270)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes in expected credit losses	–	–	–	–
<i>Total credit loss expense before transition difference</i>	<i>(90)</i>	–	–	<i>(90)</i>
Write-off	–	–	–	–
Exchange differences	42	–	1,822	1,864
As at 31 December 2020	284	–	11,228	11,512

Changes in expected credit losses for the year ended 31 December 2019 were as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	569	–	729,512	730,081
New assets originated or purchased	–	–	–	–
Assets repaid	(303)	–	–	(303)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes in expected credit losses	155	–	–	155
<i>Total credit loss expense before transition difference</i>	<i>(148)</i>	–	–	<i>(148)</i>
Write-off	–	–	(718,517)	(718,517)
Exchange differences	(89)	–	(1,589)	(1,678)
As at 31 December 2019	332	–	9,406	9,738

*(in thousands of Hryvnias, unless otherwise indicated)***9. Derivative financial instruments**

The Bank enters into currency exchange operations whereby it is obliged to supply one currency in exchange for another under pre-determined exchange rates. Such transactions are entered into with Ukrainian and international banks and clients. Currency delivery under such contracts should not exceed one month.

The Bank concludes contracts for the purchase of derivative financial instruments for hedging purposes, but these instruments do not qualify for hedge accounting.

Notional amounts in the tables below represent the accounts receivable and payable:

Foreign exchange contracts	31 December 2020				31 December 2019			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Swaps/forwards	4,935,545	(5,157,490)	4,930	(226,875)	1,543,315	(1,586,930)	8	(43,623)
Spots	745,303	(745,823)	256	(776)	1,043	(1,044)	-	(1)
Total derivative assets/ (liabilities)			5,186	(227,651)			8	(43,624)

10. Loans to customers and finance leases

Loans to customers and finance leases comprise:

	31 December 2020	31 December 2019
Legal entities	41,682,615	35,512,812
SME	7,808,679	5,267,192
Individuals	5,571,369	5,430,520
Gross loans to customers and finance leases	55,062,663	46,210,524
Less: expected credit losses	(7,545,080)	(7,224,845)
Loans to customers and finance leases	47,517,583	38,985,679

As at 31 December 2020, loans to customers and finance leases included loans to customers of UAH 123,109 thousand. (2019: none), the contractual terms of which do not comply to the terms of the basic lending arrangement, and which are measured at FVPL. Information regarding fair value measurement of loans to customers at FVPL is provided in Note 29.

As at 31 December 2020, loans to customers and finance leases included loans to customers of UAH 2,039 thousand. (2019: UAH 1,838 thousand) held under the business model, the purpose of which is to retain financial assets to obtain contractual cash flows and sales. Information regarding fair value measurement of loans to customers at FVOCI is provided in Note 29.

As at 31 December 2020, the total amount of not overdue restructured loans was UAH 2,178,452 thousand (2019: UAH 1,950,002 thousand).

During 2020, the Bank performed foreclosure of collateral for repayment of loans to customers. The amount of collateral, which was used for repayment of loans to customers, was UAH 16,520 thousand and is subsequently accounted as other property (2019: UAH 232,206 thousand).

As at 31 December 2020 and 2019, the Bank's loan portfolio included short- and long-term loans to legal entities and individual entrepreneurs to purchase new equipment, agricultural machinery and vehicles produced in the Republic of Belarus and sold in Ukraine. For these loans, the Bank receives compensation in the amount of 2/3 of the discount rate of the National Bank of Ukraine on the date of the loan agreement, but not more than 8% per annum.

As at 31 December 2020, the total amount of debt under these loans was UAH 108,111 thousand (2019: UAH 195,849 thousand).

As at 31 December 2020 and 2019, the amount of compensation for the loans to purchase new equipment, agricultural machinery and vehicles produced in the Republic of Belarus was UAH 7,198 thousand and UAH 11,456 thousand, respectively.

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and finance leases (continued)**

Analysis of changes in the gross carrying value for the year ended 31 December 2020 is as follows:

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2020	26,760,316	3,844,351	4,637,669	270,476	35,512,812
New assets	27,391,173	1,715,375	652,793	-	29,759,341
Repaid assets	(22,770,521)	(2,627,955)	(1,019,532)	(17,970)	(26,435,978)
Transfer to stage 1	7,931,261	(7,366,905)	(564,356)	-	-
Transfer to stage 2	(15,475,968)	15,528,407	(52,439)	-	-
Transfer to stage 3	(266,948)	(399,971)	666,919	-	-
Amounts written off	-	-	(1,159,546)	-	(1,159,546)
Exchange differences	2,801,496	848,303	309,771	46,416	4,005,986
As at 31 December 2020	26,370,809	11,541,605	3,471,279	298,922	41,682,615

SME	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2020	4,361,811	245,718	659,663	-	5,267,192
New assets	4,461,465	27,483	124,740	-	4,613,688
Repaid assets	(2,715,239)	(180,118)	(62,119)	-	(2,957,476)
Transfer to stage 1	1,662,532	(1,621,094)	(41,438)	-	-
Transfer to stage 2	(3,615,121)	3,617,495	(2,374)	-	-
Transfer to stage 3	(93,803)	(119,318)	213,121	-	-
Amounts written off	-	-	(43,820)	-	(43,820)
Exchange differences	642,690	55,333	107,963	-	805,986
As at 31 December 2020	4,704,335	2,025,499	955,736	-	7,685,570

Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2020	2,759,653	15,658	2,655,209	-	5,430,520
New assets	2,045,624	4,413	69,574	9,146	2,128,757
Repaid assets	(1,610,162)	(13,654)	(148,376)	(3,722)	(1,775,914)
Transfer to stage 1	141,536	(135,390)	(6,146)	-	-
Transfer to stage 2	(238,338)	239,671	(1,333)	-	-
Transfer to stage 3	(36,516)	(80,896)	117,412	-	-
Amounts written off	(123)	-	(612,667)	-	(612,790)
Exchange differences	4,821	38	395,937	-	400,796
As at 31 December 2020	3,066,495	29,840	2,469,610	5,424	5,571,369

Analysis of changes in the gross carrying value for the year ended 31 December 2019 is as follows:

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	30,927,215	6,154,367	4,621,990	565,232	42,268,804
New assets	22,495,093	595,719	1,459,476	268,702	24,818,990
Repaid assets	(17,793,493)	(5,917,198)	(3,519,596)	(559,859)	(27,790,146)
Transfer to stage 1	8,129,765	(7,916,730)	(213,035)	-	-
Transfer to stage 2	(14,469,688)	14,678,941	(209,253)	-	-
Transfer to stage 3	(595,424)	(3,305,179)	3,900,603	-	-
Amounts written off	-	-	(1,073,759)	-	(1,073,759)
Exchange differences	(1,933,152)	(445,569)	(328,757)	(3,599)	(2,711,077)
As at 31 December 2019	26,760,316	3,844,351	4,637,669	270,476	35,512,812

(in thousands of Hryvnias, unless otherwise indicated)

10. Loans to customers and finance leases (continued)

SME	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	4,386,245	362,398	181,211	-	4,929,854
New assets	3,014,878	125,788	22,822	-	3,163,488
Repaid assets	(2,113,034)	(165,161)	(43,522)	-	(2,321,717)
Transfer to stage 1	275,713	(272,246)	(3,467)	-	-
Transfer to stage 2	(715,912)	719,572	(3,660)	-	-
Transfer to stage 3	(40,125)	(511,300)	551,425	-	-
Amounts written off	-	-	(6,628)	-	(6,628)
Exchange differences	(445,954)	(13,333)	(38,518)	-	(497,805)
As at 31 December 2019	4,361,811	245,718	659,663	-	5,267,192

Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2019	2,744,136	7,708	3,691,741	184	6,443,769
New assets	1,600,611	2,530	136,804	2	1,739,947
Repaid assets	(1,430,553)	(15,638)	(113,675)	(186)	(1,560,052)
Transfer to stage 1	63,041	(56,375)	(6,666)	-	-
Transfer to stage 2	(133,822)	134,629	(807)	-	-
Transfer to stage 3	(78,241)	(57,162)	135,403	-	-
Amounts written off	-	-	(762,749)	-	(762,749)
Exchange differences	(5,519)	(34)	(424,842)	-	(430,395)
As at 31 December 2019	2,759,653	15,658	2,655,209	-	5,430,520

Write-offs are represented by bad debts in the amount of UAH 1,834,566 thousand (2019: UAH 1,463,888 thousand of write-off of bad debts and 391,520 thousand of discount reserve from financial restructuring).

Expected credit losses on loans to customers and finance leases for the year ended 31 December 2020 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2020	534,172	203,316	3,590,893	27,352	4,355,733
New assets	386,792	42,711	47,352	-	476,855
Repaid assets	(48,377)	(79,245)	(356,331)	-	(483,953)
Transfer to stage 1	305,993	(295,062)	(10,931)	-	-
Transfer to stage 2	(1,687,422)	1,687,789	(367)	-	-
Transfer to stage 3	(202,319)	(164,258)	366,577	-	-
Change of reserve	1,137,135	(198,946)	(464,777)	8,627	482,039
<i>Total credit loss expense before transition difference</i>	<i>(108,198)</i>	<i>992,989</i>	<i>(418,477)</i>	<i>8,627</i>	<i>474,941</i>
Changes in impaired interest	-	-	342,364	-	342,364
Amounts written off	-	-	(1,169,546)	-	(1,169,546)
Exchange differences	66,509	61,689	119,654	-	247,852
As at 31 December 2020	492,483	1,257,994	2,464,888	35,979	4,251,344

SME	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2020	29,827	8,579	206,032	-	244,438
New assets	70,841	268	19,116	-	90,225
Repaid assets	(3,423)	(22,579)	(9,661)	-	(35,663)
Transfer to stage 1	42,528	(41,721)	(807)	-	-
Transfer to stage 2	(389,244)	390,231	(987)	-	-
Transfer to stage 3	(29,775)	(63,652)	93,427	-	-
Change of reserve	385,607	(45,254)	236,708	-	577,061
<i>Total credit loss expense before transition difference</i>	<i>76,534</i>	<i>217,293</i>	<i>337,796</i>	<i>-</i>	<i>631,623</i>
Changes in impaired interest	-	-	23,811	-	23,811
Amounts written off	-	-	(47,157)	-	(47,157)
Exchange differences	16,750	2,800	30,543	-	50,093
As at 31 December 2020	123,111	228,672	551,025	-	902,808

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and finance leases (continued)**

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2020	17,261	6,709	2,600,697	7	2,624,674
New assets	3,892	-	2,795	-	6,687
Repaid assets	(1,136)	(1,656)	(11,843)	-	(14,635)
Transfer to stage 1	5,561	(5,509)	(52)	-	-
Transfer to stage 2	(85,629)	86,089	(460)	-	-
Transfer to stage 3	(28,978)	(56,640)	85,618	-	-
Change of reserve	107,487	(17,118)	(144,762)	4,395	(49,998)
<i>Total credit loss expense before transition difference</i>	<i>1,197</i>	<i>5,166</i>	<i>(68,704)</i>	<i>4,395</i>	<i>(57,946)</i>
Changes in impaired interest	-	-	48,185	-	48,185
Amounts written off	-	-	(617,863)	-	(617,863)
Exchange differences	(196)	(58)	394,132	-	393,878
As at 31 December 2020	18,262	11,817	2,356,447	4,402	2,390,928

Expected credit losses on loans to customers and finance leases for the year ended 31 December 2019 were as follows:

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	179,100	670,376	3,728,671	-	4,578,147
New assets	144,179	-	8,130	-	152,309
Repaid assets	(23,135)	(56,956)	(437,325)	-	(517,416)
Transfer to stage 1	249,168	(246,551)	(2,617)	-	-
Transfer to stage 2	(824,653)	869,394	(44,741)	-	-
Transfer to stage 3	(290,422)	(1,191,884)	1,482,306	-	-
Change of reserve	1,114,806	190,901	(559,509)	27,352	773,550
<i>Total credit loss expense before transition difference</i>	<i>369,943</i>	<i>(435,096)</i>	<i>446,244</i>	<i>27,352</i>	<i>408,443</i>
Changes in impaired interest	-	-	589,038	-	589,038
Amounts written off	-	-	(1,073,759)	-	(1,073,759)
Exchange differences	(14,871)	(31,964)	(99,301)	-	(146,136)
As at 31 December 2019	534,172	203,316	3,590,893	27,352	4,355,733

<i>SME</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	36,666	15,151	100,466	-	152,283
New assets	13,012	-	9,243	-	22,255
Repaid assets	(1,142)	(2,716)	(7,049)	-	(10,907)
Transfer to stage 1	1,620	(1,616)	(4)	-	-
Transfer to stage 2	(99,456)	99,456	-	-	-
Transfer to stage 3	(10,733)	(120,240)	130,973	-	-
Change of reserve	93,486	19,741	(30,364)	-	82,863
<i>Total credit loss expense before transition difference</i>	<i>(3,213)</i>	<i>(5,375)</i>	<i>102,799</i>	-	<i>94,211</i>
Changes in impaired interest	-	-	20,249	-	20,249
Amounts written off	-	-	(6,628)	-	(6,628)
Exchange differences	(3,626)	(1,197)	(10,854)	-	(15,677)
As at 31 December 2019	29,827	8,579	206,032	-	244,438

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and finance leases (continued)**

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
As at 1 January 2019	10,216	2,380	3,662,544	13	3,675,153
New assets	3,450	-	3,845	-	7,295
Repaid assets	(1,048)	(535)	(12,871)	(17)	(14,471)
Transfer to stage 1	1,825	(1,790)	(35)	-	-
Transfer to stage 2	(33,849)	34,101	(252)	-	-
Transfer to stage 3	(61,869)	(39,790)	101,659	-	-
Change of reserve	98,804	12,603	(95,418)	4	15,993
<i>Total credit loss expense before transition difference</i>	<i>7,313</i>	<i>4,589</i>	<i>(3,072)</i>	<i>(13)</i>	<i>8,817</i>
Changes in impaired interest	-	-	90,268	-	90,268
Amounts written off	-	-	(762,749)	-	(762,749)
Exchange differences	(261)	(260)	(386,294)	-	(386,815)
As at 31 December 2019	17,268	6,709	2,600,697	-	2,624,674

As at 31 December 2020, the Bank has made adjusted the process of estimation of expected credit losses in connection with the ongoing COVID-19 pandemic. In particular, the Bank updated the forecast information, including forecasts of macroeconomic indicators. Also, the Bank revised the indicators of a significant increase in credit risk. The management adjustments due to COVID-19 as at 31 December 2020 were as follows:

	<i>Modelled ECL</i>	<i>Management overlays</i>	<i>Total ECL</i>	<i>Adjustments as a % of total ECL</i>
Legal entities	4,075,368	175,976	4,251,344	4%
SMEs	849,989	52,820	902,808	6%
Individuals	2,390,928	-	2,390,928	0%
Total	7,316,285	228,796	7,545,080	3%

Management overlays

Management overlays reflect significant uncertainty as a consequence of the COVID-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes/segments.

The table below discloses the number and gross carrying value of loans to customers and finance leases as at 31 December 2020 in regard to which the Bank's special programs related to the restructuring of the terms of loan agreements due to COVID-19 apply:

<i>Bank's special programs</i>	<i>Legal entities</i>	<i>SMEs</i>	<i>Individuals</i>	<i>Total</i>
Amount of loans to customers and finance leases	58	357	46,087	46,502
Gross carrying value of loans to customers and finance leases	6,499,428	1,383,512	833,025	8,715,965
% of portfolio	12%	3%	2%	16%

The table below discloses the gross carrying value and corresponding ECL by stages for loans to customers and finance leases subject to payment relief provided due to COVID-19 and in regard to which the Bank's special programs related to the restructuring of the terms of loan agreements apply:

<i>Bank's special programs</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value of loans to customers and finance leases	3,947,130	3,515,203	1,253,632	8,715,965
% of portfolio	7%	6%	2%	16%
Minus: expected credit losses	(63,761)	(526,974)	(680,727)	(1,271,462)
% of total amount of reserves	1%	7%	9%	17%

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and finance leases (continued)****Management overlays (continued)**

The following is the information on undiscounted ECLs at initial recognition of purchased credit-impaired loans to customers and finance leases, which were initially recognized for the years ended 31 December 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Legal entities	-	392,164
SME	-	-
Individuals	3,653	-
Total undiscounted ECLs at initial recognition of POCI	<u>3,653</u>	<u>392,164</u>

Collateral

The following table summarizes the total loan portfolio by types of collateral:

<i>Type of collateral</i>	31 December 2020			
	<i>Legal entities</i>	<i>SME</i>	<i>Individuals</i>	<i>Total</i>
Deposits	1,052,427	210,931	14,729	1,278,087
Real estate	19,563,102	3,402,427	1,589,851	24,555,380
Other assets	10,126,172	2,711,686	1,367,751	14,205,609
Unsecured	10,940,914	1,483,635	2,599,038	15,023,587
Total loans	<u>41,682,615</u>	<u>7,808,679</u>	<u>5,571,369</u>	<u>55,062,663</u>

<i>Type of collateral</i>	31 December 2019			
	<i>Legal entities</i>	<i>SME</i>	<i>Individuals</i>	<i>Total</i>
Deposits	2,136,353	224,167	74,306	2,434,826
Real estate	15,347,584	2,862,870	1,335,201	19,545,655
Other assets	9,937,649	1,620,852	1,257,187	12,815,688
Unsecured	8,091,226	559,303	2,763,826	11,414,355
Total loans	<u>35,512,812</u>	<u>5,267,192</u>	<u>5,430,520</u>	<u>46,210,524</u>

The above amounts represent the carrying value of the loans, before expected credit losses, and do not represent the fair value of collateral. The Bank assesses the fair value of collateral at the loan origination, change of collateral structure, collateral repossession when the borrower is unable to repay the loan, and in cases and with frequency required by Ukrainian regulations.

As at 31 December 2020 and 2019, other assets include movable property, goods in turnover, etc.

In the absence of collateral or other credit quality enhancement tools, the expected credit losses on loans to customers at Stage 3 as at 31 December 2020 and 2019 would be bigger by:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Legal entities	801,957	988,274
SME	333,167	424,126
Individuals	49,293	30,718
	<u>1,184,417</u>	<u>1,443,118</u>

*(in thousands of Hryvnias, unless otherwise indicated)***10. Loans to customers and finance leases (continued)****Collateral (continued)**

The following table presents the structure of loans to customers and finance leases by types of client segments and by debt currency:

<i>Types of clients</i>	31 December 2020				31 December 2019			
	<i>In foreign currency</i>	<i>In national currency</i>	<i>Total</i>	<i>Impaired</i>	<i>In foreign currency</i>	<i>In national currency</i>	<i>Total</i>	<i>Impaired</i>
State entities and municipalities	8,155,451	5,740,812	13,896,263	1,185,011	1,354,652	10,334,511	11,689,163	1,268,372
Corporate clients	18,427,892	9,389,703	27,817,595	3,547,959	14,307,739	9,516,027	23,823,766	3,639,774
Micro	1,505	202,834	204,339	5,977	5,776	84,918	90,694	15,822
SME	3,639,598	3,933,499	7,573,097	951,047	2,868,178	2,308,203	5,176,381	643,841
Individuals	2,131,720	3,439,649	5,571,369	2,474,953	2,115,006	3,315,514	5,430,520	2,655,209
Total	32,356,166	22,706,497	55,062,663	8,164,947	20,651,351	25,559,173	46,210,524	8,223,018

The following table presents the structure of loans to customers and finance leases by types of client segments and by loan maturities:

<i>Types of clients</i>	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>
State entities and municipalities	5,428,540	8,467,723	13,896,263	9,415,584	2,273,579	11,689,163
Corporate clients	10,246,561	17,571,034	27,817,595	8,908,407	14,915,359	23,823,766
Micro	63,416	140,923	204,339	57,777	32,917	90,694
SME	2,424,699	5,148,398	7,573,097	1,936,616	3,239,765	5,176,381
Individuals	1,140,517	4,430,852	5,571,369	976,463	4,454,057	5,430,520
Total	19,303,733	35,758,930	55,062,663	21,294,847	24,915,677	46,210,524

As at 31 December 2020, loans to customers and finance leases in the amount of UAH 18,668,993 thousand were granted to the ten biggest borrowers/groups of Bank's related counterparties (33.90% of the total loans to customers); allowance for expected credit losses of UAH 622,077 thousand was made for these loans to customers and finance leases (2019: UAH 16,326,838 thousand, or 35.27%, and the allowance for expected credit losses of UAH 425,327 thousand).

The loans are primarily granted to those customers which operate on the territory of Ukraine in the following industries:

	31 December 2020	31 December 2019
Electric power industry	13,534,402	10,834,715
Natural gas transportation	7,401,626	6,970,058
Individuals	5,571,369	5,430,520
Agriculture and food processing	5,230,361	3,961,126
Trade	4,408,515	4,600,691
Real estate	4,120,271	2,045,965
Transport	3,461,568	1,646,652
Municipality	2,982,728	2,456,176
Metallurgy	2,751,219	1,313,503
Production	2,493,074	3,007,429
Service sector	1,328,744	1,279,073
Construction	723,154	2,008,032
Telecommunications	28,688	603,014
Financial services	13,840	10,873
Other	1,013,104	42,697
Total	55,062,663	46,210,524

(in thousands of Hryvnias, unless otherwise indicated)

10. Loans to customers and finance leases (continued)**Collateral (continued)**

In the table below, the loans to customers under finance leasing agreements are distributed by segments and terms:

	31 December 2020			31 December 2019		
	Legal entities	SME	Total	Legal entities	SME	Total
Within one year						
Finance leasing agreements	3,214	167,245	170,459	5,618	62,572	68,190
Less: expected credit losses	-	(282)	(282)	-	(115)	(115)
Short-term finance leasing agreements	3,214	166,963	170,177	5,618	62,457	68,075
More than one year						
Finance leasing agreements	113,160	1,389,258	1,502,418	159,282	492,998	652,280
Less: expected credit losses	(13,876)	(57,976)	(71,852)	(15,997)	(3,694)	(19,691)
Long-term finance leasing agreements	99,284	1,331,282	1,430,566	143,285	489,304	632,589
Total finance leasing agreements	102,498	1,498,245	1,600,743	148,903	551,761	700,664

The following table presents the provision structure on finance lease by industry and Bank's customer segment:

	31 December 2020		31 December 2019	
	Legal entities	SME	Legal entities	SME
Construction	-	11,756		
Production	2,513	72,693	7,141	20,827
Agriculture and food processing	47,122	-	57,662	-
Service sector	63,818	98,845	95,960	37,156
Trade	-	-	354	-
Transport	1,792	701,078	3,309	483,314
Real estate	-	6,522	-	-
Other	390	3,363	473	5,424
	115,635	894,257	164,899	546,721

The following table presents the analysis of finance lease receivables as at 31 December 2020, which is included in the legal entity and SME loan portfolio:

	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Total
Gross investments in finance leases	886,581	617,936	472,081	75,962	15,675	2,068,235
Foregone financial revenue from future finance leases	(237,894)	(142,815)	(72,780)	(12,059)	(1,944)	(467,492)
Net investments in finance leases	648,687	475,121	399,301	63,903	13,731	1,600,743

The following table presents the analysis of finance lease receivables as at 31 December 2019, which is included in the legal entity and SME loan portfolio:

	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Total
Gross investments in finance leases	445,617	294,526	85,589	55,575	19,362	900,669
Foregone financial revenue from future finance leases	(113,444)	(54,677)	(20,312)	(8,892)	(2,680)	(200,005)
Net investments in finance leases	332,173	239,849	65,277	46,683	16,682	700,664

*(in thousands of Hryvnias, unless otherwise indicated)***11. Investments at fair value through other comprehensive income**

Investments at fair value through other comprehensive income include:

	31 December 2020	31 December 2019
Ukrainian domestic government bonds (UDGB)	43,625,889	20,645,703
U.S. government bonds	5,687,662	7,205,450
Deposit certificates issued by the National Bank of Ukraine	3,000,983	-
State Mortgage Institution bonds	1,849,243	1,422,474
Municipal bonds	1,858,951	1,125,352
Companies' shares	11,328	11,389
Investments at fair value through other comprehensive income	56,034,056	30,410,368

The Bank classifies overnight deposit certificates issued by the National Bank of Ukraine as cash and cash equivalents. Deposit certificates issued by the National Bank of Ukraine with other maturities are classified as investments at fair value through other comprehensive income.

At its own discretion, the Bank classified certain investments in equity instruments as equity instruments measured at fair value through other comprehensive income as these investment are not used for trading purposes.

The movement of gross carrying amount of investments at fair value through other comprehensive income includes:

<i>Investments at fair value through other comprehensive income</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	30,509,614	-	-	30,509,614
New created and purchased assets	721,663,873	-	-	721,663,873
Assets repaid	(657,160,909)	-	-	(657,160,909)
Assets sold	(42,562,488)	-	-	(42,562,488)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(2,124,499)	-	2,124,499	-
Unwinding of discount (recognized in interest revenue)	-	-	-	-
Reclassification	-	-	-	-
Write-off	-	-	-	-
Exchange differences	4,114,700	-	-	4,114,700
Gross carrying amount as at 31 December 2020	54,440,291	-	2,124,499	56,564,790

<i>Investments at fair value through other comprehensive income</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	18,817,687	-	-	18,817,687
New created and purchased assets	232,693,080	-	-	232,693,080
Assets repaid	(185,748,356)	-	-	(185,748,356)
Assets sold	(33,156,307)	-	-	(33,156,307)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Unwinding of discount (recognized in interest revenue)	-	-	-	-
Reclassification	-	-	-	-
Write-off	-	-	-	-
Exchange differences	(2,096,490)	-	-	(2,096,490)
Gross carrying amount as at 31 December 2019	30,509,614	-	-	30,509,614

*(in thousands of Hryvnias, unless otherwise indicated)***11. Investments at fair value through other comprehensive income (continued)**

Changes in expected credit losses for the year ended 31 December 2020 were as follows:

<i>Investments at fair value through other comprehensive income</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Expected credit losses as at 1 January 2020	110,635	-	-	110,635
New created and purchased assets	235,744	-	-	235,744
Assets repaid	(15,898)	-	-	(15,898)
Assets sold	(42,649)	-	-	(42,649)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(13,306)	-	13,306	-
Change of reserve	(26,996)	-	261,950	234,954
Write-off	-	-	-	-
Exchange differences	19,276	-	-	19,276
Expected credit losses as at 31 December 2020	266,806	-	275,256	542,062

Changes in expected credit losses for the year ended 31 December 2019 were as follows:

<i>Investments at fair value through other comprehensive income</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Expected credit losses as at 1 January 2019	27,530	-	-	27,530
New created and purchased assets	104,408	-	-	104,408
Assets repaid	(4,195)	-	-	(4,195)
Assets sold	(14,274)	-	-	(14,274)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	-	-	-	-
Write-off	-	-	-	-
Exchange differences	(2,834)	-	-	(2,834)
Expected credit losses as at 31 December 2019	110,635	-	-	110,635

As at 31 December 2020, UDGB with fair value of UAH 593,694 thousand (2019: UAH 599,292 thousand) were pledged for a long-term loan received from a credit institution (Note 19).

12. Investment property

The movement of investment property items was as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Carrying amount as at 1 January	228,857	278,028
Additions	-	316
Disposals	(75,526)	-
Transfer to property and equipment category	(4,734)	(51,796)
Fair value adjustment	658	2,309
Carrying amount as at 31 December	149,255	228,857

Net income from investment property includes rental income in the amount of UAH 12,493 thousand (2019: UAH 14,700 thousand).

*(in thousands of Hryvnias, unless otherwise indicated)***13. Property and equipment, intangible assets**

Movements in property and equipment and intangible assets were as follows:

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2020	769,072	870,518	29,772	45,437	167,073	487,209	2,369,081
Additions	16	82,236	985	1,115	55,494	87,763	227,609
Disposals	(19,618)	(34,581)	(3,872)	-	(4,204)	(2,471)	(64,746)
Transfers	159,126	29,380	10,350	-	(198,958)	102	-
Revaluation	61,173	-	-	-	-	-	61,173
Reclassification from investment property	4,734	-	-	-	-	-	4,734
Reclassification to the category of other property	(45,782)	-	-	-	(11,043)	-	(56,825)
As at 31 December 2020	928,721	947,553	37,235	46,552	8,362	572,603	2,541,026
Accumulated depreciation							
As at 1 January 2020	-	518,240	25,484	30,854	-	360,870	935,448
Depreciation charges	21,533	169,283	4,859	5,022	-	115,320	316,017
Disposals	(280)	(33,767)	(3,664)	-	-	(13)	(37,724)
Reclassification to the category of other property	(779)	-	-	-	-	-	(779)
Revaluation	(20,474)	-	-	-	-	-	(20,474)
As at 31 December 2020	-	653,756	26,679	35,876	-	476,177	1,192,488
Net book value							
As at 1 January 2020	769,072	352,278	4,288	14,583	167,073	126,339	1,433,633
As at 31 December 2020	928,721	293,797	10,556	10,676	8,362	96,426	1,348,538

	<i>Buildings and land plots</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress and items not put into operation</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
As at 1 January 2019	937,585	752,825	28,784	50,210	244,496	459,327	2,473,227
Additions	-	44,664	177	849	99,426	67,263	212,379
Disposals	(169,781)	(50,360)	(3,163)	(5,622)	(6,532)	(39,381)	(274,839)
Transfers	17,739	123,389	3,974	-	(145,102)	-	-
Revaluation	(68,267)	-	-	-	-	-	(68,267)
Impairment	-	-	-	-	(25,215)	-	(25,215)
Reclassification from investment property	51,796	-	-	-	-	-	51,796
As at 31 December 2019	769,072	870,518	29,772	45,437	167,073	487,209	2,369,081
Accumulated depreciation							
As at 1 January 2019	-	439,908	21,674	31,684	-	269,166	762,432
Depreciation charges	21,497	131,867	6,664	4,792	-	127,698	292,518
Disposals	(888)	(53,535)	(2,854)	(5,622)	-	(35,994)	(98,893)
Revaluation	(20,609)	-	-	-	-	-	(20,609)
As at 31 December 2019	-	518,240	25,484	30,854	-	360,870	935,448
Net book value							
As at 1 January 2019	937,585	312,917	7,110	18,526	244,496	190,161	1,710,795
As at 31 December 2019	769,072	352,278	4,288	14,583	167,073	126,339	1,433,633

As at 31 December 2020, the valuation of the fair value of buildings and land plots was performed by an independent appraiser. To estimate the fair value of buildings, a comparative approach and an income approach were mainly used. Key assumptions relate to the condition, quality and location of the buildings used as comparatives.

If the valuation of land and buildings was performed using historical cost model, the carrying value of the buildings and land plots as at 31 December 2020 would amount to UAH 849,557 thousand (2019: UAH 751,160 thousand).

As at 31 December 2020, property and equipment and intangible assets with a historical cost of UAH 492,815 thousand (2019: UAH 365,476 thousand) was fully depreciated, but are still used by the Bank.

*(in thousands of Hryvnias, unless otherwise indicated)***14. Right-of-use assets and lease liabilities**

Right-of-use assets and lease liabilities include:

	<i>Right-of-use assets</i>				<i>Lease liability</i>
	<i>Buildings</i>	<i>Furniture and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>	
As at 1 January 2020	56,366	720	109,073	166,159	131,747
Additions	61,580	–	–	61,580	61,580
Early termination	(4,247)	(13)	–	(4,260)	(4,542)
Depreciation expense	(41,712)	(339)	(24,228)	(66,279)	–
Interest expense	–	–	–	–	23,542
Payments	–	–	–	–	(86,179)
As at 31 December 2020	71,987	368	84,845	157,200	126,148

	<i>Right-of-use assets</i>				<i>Lease liability</i>
	<i>Buildings</i>	<i>Furniture and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>	
As at 1 January 2019	49,161	188	–	49,349	49,349
Additions	40,078	703	121,141	161,922	161,922
Early termination	(8,724)	–	–	(8,724)	(6,819)
Unwinding	(24,149)	(171)	(12,068)	(36,388)	–
Interest expense	–	–	–	–	17,050
Payments	–	–	–	–	(89,755)
As at 31 December 2019	56,366	720	109,073	166,159	131,747

For the year ended 31 December 2020, the Bank recognized expenses on short-term leases, leases of low-value assets and variable lease payments in the amount of UAH 21,925 thousand (2019: 44,522 thousand).

In 2020, the total lease-related cash outflow amounted to UAH 108,104 thousand (2019: 134,277 thousand).

15. Other property

As at 31 December 2020, the carrying value of other property received as repayment of debts from the Bank's customers on non-performing loans was UAH 770,248 thousand (2019: UAH 735,298 thousand).

<i>Carrying amount</i>	<i>Land plots</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights to real estate</i>	<i>Movables, furniture and equipment</i>	<i>Total</i>
As at 1 January 2020	55,721	512,581	82,362	41,047	43,587	735,298
Additions	82	15,749	741	–	–	16,572
Transfer to property and equipment category	12,547	12,350	31,149	–	–	56,046
Sale	(294)	(12,280)	(6,632)	–	–	(19,206)
Impairment	(2,845)	(2,532)	(12,605)	(340)	(140)	(18,462)
As at 31 December 2020	65,211	525,868	95,015	40,707	43,447	770,248
<i>Carrying amount</i>	<i>Land plots</i>	<i>Non-residential property</i>	<i>Residential property</i>	<i>Ownership rights to real estate</i>	<i>Movables, furniture and equipment</i>	<i>Total</i>
As at 1 January 2019	157,198	471,664	105,192	36,520	28,570	799,144
Additions	4,501	236,533	5,565	6,003	18,961	271,563
Sale	(102,365)	(132,446)	(18,848)	–	–	(253,659)
Impairment	(3,613)	(55,747)	(9,547)	(1,476)	(3,944)	(74,327)
Write-off	–	(7,423)	–	–	–	(7,423)
As at 31 December 2019	55,721	512,581	82,362	41,047	43,587	735,298

*(in thousands of Hryvnias, unless otherwise indicated)***16. Taxation**

Income tax expenses comprise:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Current income tax expenses	97,684	26,643
Changes in deferred taxes – origination and reversal of temporary differences	(22,874)	159,113
Deferred tax recognized in other comprehensive income	25,655	(129,780)
Income tax expense	<u>100,465</u>	<u>55,976</u>

Reconciliation of the income tax expenses based on the current tax rates and actual income tax expense is as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Profit before income tax	511,504	1,344,972
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	<u>92,071</u>	<u>242,095</u>
Non-deductible expense for taxation	6,129	6,460
Adjustments of the tax base due to reassessment of temporary differences and changes in laws	2,265	(2,830)
Changes in unrecognized deferred tax assets	–	(189,749)
Income tax expense	<u>100,465</u>	<u>55,976</u>

As at 31 December 2020 and 2019, deferred tax assets and liabilities and their movements for the respective periods were as follows:

	<u>Origination and reversal of temporary differences</u>			<u>Origination and reversal of temporary differences</u>		
	<u>In the statement of profit or loss</u>	<u>Within equity</u>	<u>2020</u>	<u>In the statement of profit or loss</u>	<u>Within equity</u>	<u>2019</u>
Tax effect of non-taxable temporary differences						
Assessment of investments at fair value through other comprehensive income	–	38,242	(97,225)	–	(135,467)	(135,467)
Property and equipment and intangible assets	(2,781)	(12,586)	36,419	(8,865)	5,687	51,786
Tax losses carried forward	–	–	–	(210,217)	–	–
Deferred tax assets/ (liabilities), gross	(2,781)	25,656	(60,806)	(219,082)	(129,780)	(83,681)
Unrecognized deferred tax asset	–	–	–	189,749	–	–
Deferred tax assets/ (liabilities)	<u>(2,781)</u>	<u>25,656</u>	<u>(60,806)</u>	<u>(29,333)</u>	<u>(129,780)</u>	<u>(83,681)</u>
Deferred tax assets/ (liabilities), net	<u>(2,781)</u>	<u>25,656</u>	<u>(60,806)</u>	<u>(29,333)</u>	<u>(129,780)</u>	<u>(83,681)</u>

Preparation and provision of financial statements and corporate income tax returns is made at different periods. Consequently, financial and tax accounting may have minor differences. These differences will be reported in tax accounting in the next reporting period.

In compliance with the applicable tax laws, the tax base for corporate income tax is the Bank's financial result before tax as disclosed in the Bank's IFRS financial statements, adjusted for the differences provided for by the Tax Code of Ukraine. Thus, tax accounting is based on financial accounting with further tax adjustments for timely and accurate tax reporting.

*(in thousands of Hryvnias, unless otherwise indicated)***17. Provisions for legal risks**

Provisions for legal risks relate to other property of the Bank, which ownership rights are likely to be lost, and legal claims for which it is probable that the Bank will incur losses.

The change in provisions for legal risks was as follows:

	<i>Provisions for legal risks</i>
As at 1 January 2020	252,932
Released	(214)
Write-off	(1,905)
As at 31 December 2020	250,813
	<i>Provisions for legal risks</i>
As at 1 January 2019	115,089
Accrued	142,830
Write-off	(4,987)
As at 31 December 2019	252,932

18. Other assets and liabilities

Other assets comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Other financial assets		
Receivables for securities	507,270	507,270
Other income accrued	117,634	79,794
Clearing payments for payment cards	78,116	100,940
Receivables for operations with credit cards and international payment systems	10,653	11,677
Other receivables for operations with banks	7,407	7,159
Other	-	50
	721,080	706,890
Less: expected credit losses on other financial assets	(536,222)	(529,997)
Total other financial assets	184,858	176,893
Other non-financial assets		
Prepayments for the assets to be provided under finance leases	280,627	5,911
Prepayments	203,001	233,934
Receivable for property rights	146,464	148,233
Cash and precious metals located in the temporarily occupied territory of the Autonomous Republic of Crimea and in the territories of Luhansk and Donetsk regions beyond Ukrainian control	55,685	48,261
Inventories	31,783	24,041
Receivables from employees	11,275	8,619
Taxes recoverable, other than income tax	999	462
Other	330	497
	730,164	469,958
Less: allowance for impairment on other non-financial assets	(185,671)	(177,049)
Total other non-financial assets	544,493	292,909
Total other assets	729,351	469,802

*(in thousands of Hryvnias, unless otherwise indicated)***18. Other assets and liabilities (continued)**

Analysis of changes in the expected credit loss (ECL) allowance for other financial assets for the year ended 31 December 2020 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
As at 1 January 2020	3,337	431	526,229	529,997
New assets originated or purchased	1,480	4,456	473	6,409
Assets repaid	(1,396)	(1,111)	(4,003)	(6,510)
Transfer to stage 1	178	(79)	(99)	-
Transfer to stage 2	(156)	223	(67)	-
Transfer to stage 3	(293)	(4,112)	4,405	-
Changes in expected credit losses	(1,572)	2,074	4,493	4,995
<i>Total credit loss expense before transition difference</i>	<i>(1,759)</i>	<i>1,451</i>	<i>5,202</i>	<i>4,894</i>
Write-off	(337)	(1)	(2,310)	(2,648)
Exchange differences	96	13	3,870	3,979
As at 31 December 2020	<u>1,337</u>	<u>1,894</u>	<u>532,991</u>	<u>536,222</u>

Analysis of changes in the expected credit loss (ECL) allowance for other financial assets for the year ended 31 December 2019 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
As at 1 January 2019	1,929	3,079	566,943	571,951
New assets originated or purchased	2,372	5,814	454	8,640
Assets repaid	(688)	(6,192)	(13,898)	(20,778)
Transfer to stage 1	336	(96)	(240)	-
Transfer to stage 2	(181)	226	(45)	-
Transfer to stage 3	(88)	(2,726)	2,814	-
Changes in expected credit losses	(293)	326	(643)	(610)
<i>Total credit loss expense before transition difference</i>	<i>1,458</i>	<i>(2,648)</i>	<i>(11,558)</i>	<i>(12,748)</i>
Write-off	-	-	(25,743)	(25,743)
Exchange differences	(50)	-	(3,413)	(3,463)
As at 31 December 2019	<u>3,337</u>	<u>431</u>	<u>526,229</u>	<u>529,997</u>

Analysis of changes in the impairment provision for other non-financial assets for the year ended 31 December 2020 is as follows:

	<u>Other assets</u>
As at 1 January 2020	177,049
Accrued/(reversed)	(1,182)
<i>Total credit loss expense before transition difference</i>	<i>(1,182)</i>
Recovery	2,441
Amounts written off	(418)
Exchange differences	7,781
As at 31 December 2020	<u>185,671</u>

Analysis of changes in the impairment provision for other non-financial assets for the year ended 31 December 2019 is as follows:

	<u>Other assets</u>
As at 1 January 2019	173,956
Accrued/(reversed)	1,379
<i>Total credit loss expense before transition difference</i>	<i>1,379</i>
Recovery	4,080
Amounts written off	(229)
Exchange differences	(2,137)
As at 31 December 2019	<u>177,049</u>

*(in thousands of Hryvnias, unless otherwise indicated)***18. Other assets and liabilities (continued)**

Other liabilities comprise:

	31 December 2020	31 December 2019
Payables for the assets to be provided under finance leases	286,012	7,354
Payables for operations with clients	206,348	526,438
Accruals for unused vacations	204,247	145,727
Payables for operations with plastic cards	192,656	81,694
Payables for operations with clients on purchase and sale of foreign currency, bank and precious metals	79,473	10,840
Payments to the Individual Deposit Guarantee Fund	50,571	44,357
Accounts payable for taxes and compulsory payments, except for income tax	37,889	34,310
Accrued expenses for cash and settlements	21,751	18,804
Deferred income	21,054	18,851
Accounts payable for acquiring assets	8,514	909
Communications	5,320	3,690
Maintenance of premises	5,063	2,496
Accounts payable for payments to employees	4,705	2,919
Payables to plastic cards transactions processing center	2,367	2,601
Repairs and maintenance of property and equipment	1,259	6,623
Rent of premises	1,122	1,214
Reward to partners for attraction of customers	-	923
Accounts payable for operations with banks	662	90,171
Other	35,785	28,600
Other liabilities	1,164,798	1,028,522

19. Due to credit institutions

Due to credit institutions comprise:

	31 December 2020	31 December 2019
Time deposits and loans	3,164,521	2,661,722
Current accounts	2,434,827	2,550,852
REPO agreements	-	484,312
Other amounts due to credit institutions	70,330	38,046
Due to credit institutions	5,669,678	5,734,932

As at 31 December 2020, the balance of due to credit institutions amounted to UAH 2,659,180 thousand (46.90%) raised from three banks (2019: balance amounted to UAH 2,673,913 thousand (46.63%) raised from three banks).

As at 31 December 2020, a long-term loan received from one credit institution was secured by the Ukrainian domestic government bonds with a fair value of UAH 593,694 thousand (2019: UAH 599,292 thousand) (Note 11).

As at 31 December 2019, the loans under REPO agreements received from one credit institution were secured by the Ukrainian domestic government bonds with a fair value of UAH 488,196 thousand. As at 31 December 2020, there were no such operations. (Note 11). The mentioned UDGBs are measured at fair value through other comprehensive income and are not derecognized as the Bank retains substantially all the risks and rewards of these securities.

*(in thousands of Hryvnias, unless otherwise indicated)***20. Due to customers**

Due to customers on operating segments comprise:

	31 December 2020	31 December 2019
Current accounts		
Legal entities	55,428,900	55,937,034
SME	5,482,405	2,944,037
Individuals	8,305,264	5,376,557
	69,216,569	64,257,628
Time deposits		
Legal entities	29,892,202	14,863,783
SME	6,079,062	5,299,792
Individuals	21,310,876	18,938,378
	57,282,140	39,101,953
Due to customers	126,498,709	103,359,581

As at 31 December 2020, the amounts due to customers of UAH 48,585,329 thousand (38.41%) included the amounts due to ten largest customers of the Bank (2019: UAH 48,169,304 thousand (46.60%)).

As at 31 December 2020, the amounts due to budget organizations were UAH 758,184 thousand and included the amounts due to customers: UAH 752,756 thousand – in "Legal entities" (2019: UAH 329,792 thousand); UAH 5,398 thousand – in "SME" (2019: UAH 975 thousand).

The amounts due to customers by industry are summarized as follows:

	31 December 2020	31 December 2019
Service sector	31,353,046	36,630,750
Individuals	29,691,691	24,347,021
Transport	23,926,467	13,901,200
Energy	8,643,091	5,671,700
Trade	5,664,156	3,724,882
Production	5,564,106	3,431,902
Financial services	5,188,030	4,580,683
Metallurgy	5,120,828	2,233,261
Agriculture and food processing	3,246,035	1,367,286
Insurance	2,444,910	2,037,021
Construction	2,422,861	2,176,954
Other	3,233,488	3,256,921
Due to customers	126,498,709	103,359,581

As at 31 December 2020, the analysis of amounts due to customers by industry in terms of "Individuals" in the amount of UAH 29,691,691 thousand (2019: UAH 24,347,021 thousand) included a portion of amounts due to customers in terms of "SME" in the amount of UAH 75,551 thousand (2019: UAH 32,086 thousand).

As at 31 December 2020, category "Other" included the funds of non-resident legal entities of UAH 3,105,597 thousand (2019: UAH 3,184,897 thousand).

As at 31 December 2020, loans to customers were secured by amounts due to customers of UAH 1,278,087 thousand (2019: UAH 2,434,826 thousand) (Note 10).

As at 31 December 2020, amounts due to customers secured the financial commitments and contingencies in the amount of UAH 2,768,436 thousand (2019: UAH 1,011,289 thousand) (Note 22).

*(in thousands of Hryvnias, unless otherwise indicated)***21. Equity****Share capital**

As at 31 December 2020, the authorized issued share capital comprised 13,836,522,922 ordinary shares and 477,078 preferred shares (2019: 13,836,522,922 ordinary shares and 477,078 preferred shares) with the nominal value of UAH 1 per share. Ordinary shares give rights to their holders to participate in the General Shareholders' Meetings, to receive dividends and, in case of liquidation of the Bank, to receive a portion of the Bank's property or its value in proportion to the value of the Bank's shares owned by them in the order and in accordance with the procedure stipulated by the legislation of Ukraine and the Bank's charter. The shareholders that own preferred shares have a right to vote in certain cases according to the charter and are entitled to receive annual fixed amounts of dividends, unless otherwise envisaged by law.

The number of issued and fully paid shares is as follows:

	<i>Number of shares, thousand</i>		<i>Nominal value, thousand UAH</i>		<i>Nominal value, thousand UAH</i>	<i>Total, thousand UAH</i>
	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>		
As at 31 December 2018	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	-	-	-	-	-	-
As at 31 December 2019	13,836,523	477	13,836,523	477	13,837,000	13,837,000
Issued and registered shares	-	-	-	-	-	-
As at 31 December 2020	13,836,523	477	13,836,523	477	13,837,000	13,837,000

The Bank creates a reserve fund to cover unforeseen losses on all items of assets and off-balance liabilities. The amount of transfers to the reserve fund should be not less than 5% of the Bank's profit until it reaches 25% of the Bank's regulatory capital. As at 31 December 2020, the Bank's reserve fund amounted to UAH 549,572 thousand (2019: UAH 420,673 thousand).

If as a result of the Bank's operations the amount of its regulatory capital decreases to the amount below its share capital, then annual charges to the reserve fund should be 10% of the Bank's net profit until it reaches 35% of the Bank's share capital.

*(in thousands of Hryvnias, unless otherwise indicated)***21. Equity (continued)****Movements in other reserves**

Movements in other reserves were as follows:

	<i>Property and equipment revaluation reserve</i>	<i>Revaluation reserve for investments at fair value through other comprehensive income</i>	<i>Total</i>
As at 1 January 2019	331,707	(679,470)	(347,763)
Revaluation of property and equipment	(31,595)	–	(31,595)
Income tax related to revaluation of property and equipment	5,687	–	5,687
Net change in fair value of debt instruments at fair value through other comprehensive income	–	1,332,211	1,332,211
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	–	(65,771)	(65,771)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	–	104,408	104,408
Income tax associated with revaluation of securities	–	(135,467)	(135,467)
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income	–	59,353	59,353
Transfer as a result of retirement of assets	(90,077)	–	(90,077)
As at 31 December 2019	215,722	615,264	830,986
Revaluation of property and equipment	70,090	–	70,090
Income tax related to revaluation of property and equipment	(12,586)	–	(12,586)
Net change in fair value of debt instruments at fair value through other comprehensive income	–	(534,733)	(534,733)
Reclassification of cumulative (gain)/loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss	–	(148,404)	(148,404)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	–	470,699	470,699
Income tax associated with revaluation of securities	–	38,242	38,242
Transfer of accumulated revaluation reserve on disposal of equity instruments at fair value through other comprehensive income	–	(64)	(64)
Transfer as a result of retirement of assets	(26,662)	(14)	(26,676)
As at 31 December 2020	246,564	440,990	687,554

*(in thousands of Hryvnias, unless otherwise indicated)***22. Commitments and contingencies****Legal issues**

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank's management believes that the final amount of the liabilities, which may arise from legal proceedings, will not have a material adverse effect on the Bank's financial position or the results of its future operations (Note 17).

Taxation

The Ukrainian tax system is characterized by numerous taxes and frequent changes in the legislation. Tax regulations are often unclear, open to wide interpretation and, in some instances, are controversial. Instances of inconsistent tax law treatment among the fiscal authorities, authorized institutions, entities and other government bodies are not infrequent. Tax returns are subject to review and investigation by a number of authorities that are authorized to impose penalties and interest charges. These facts expose entities operating in Ukraine to more significant risks than those in the countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation requirements. However, no certainties exist that the tax authorities would not apply other approach to the Bank's compliance with the effective tax legislation and further impose fines and penalties.

Commitments and contingencies

As at 31 December 2020 and 2019, contractual commitments and contingencies were as follows:

	31 December 2020	31 December 2019
<i>Credit-related commitments</i>		
Financial guarantees	3,937,311	1,913,913
Loan commitments	1,428,680	4,500,252
Letters of credit	3,376,515	1,727,018
	8,742,506	8,141,183
Performance guarantees	2,253,556	915,041
	2,253,556	915,041
Commitments and contingencies	10,996,062	9,056,224

As at 31 December 2020 and 2019, loan commitments are represented by revocable commitments to the Bank's strategic customers.

Changes in the expected credit loss allowance for financial guarantees for the year ended 31 December 2020 were as follows:

<i>Legal entities</i>	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	8,201	25	112,570	120,796
New guarantees	128,063	-	385	128,448
Expired guarantees	(84,746)	(4,581)	(142,589)	(231,916)
Transfer to stage 1	1,872	(1,872)	-	-
Transfer to stage 2	(36,117)	36,117	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	10,370	(21,447)	3,270	(7,807)
<i>Total credit loss expense before transition difference</i>	19,442	8,217	(138,934)	(111,275)
Exchange differences	2,655	981	26,364	30,000
As at 31 December 2020	30,298	9,223	-	39,521

(in thousands of Hryvnias, unless otherwise indicated)

22. Commitments and contingencies (continued)**Commitments and contingencies (continued)**

SME	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	-	-	-	-
New guarantees	625	-	-	625
Expired guarantees	-	-	-	-
Transfer to stage 1	3	(3)	-	-
Transfer to stage 2	(17)	17	-	-
Transfer to stage 3	-	(7)	7	-
Change of reserve	(248)	(7)	-	(255)
<i>Total credit loss expense before transition difference</i>	363	-	7	370
Exchange differences	4	-	1	5
As at 31 December 2020	367	-	8	375

Changes in the expected credit loss allowance for financial guarantees for the year ended 31 December 2019 were as follows:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	2,174	32,925	112,469	147,568
New guarantees	80,278	-	1,178	81,456
Expired guarantees	(7,237)	(32,396)	(74,390)	(114,023)
Transfer to stage 1	199	(165)	(34)	-
Transfer to stage 2	(17)	35	(18)	-
Transfer to stage 3	(112,571)	-	112,571	-
Change of reserve	51,919	(374)	(21,153)	30,392
<i>Total credit loss expense before transition difference</i>	12,571	(32,900)	18,154	(2,175)
Exchange differences	(6,544)	-	(18,053)	(24,597)
As at 31 December 2019	8,201	25	112,570	120,796

SME	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	21	-	-	21
New guarantees	11	-	-	11
Expired guarantees	(5)	-	-	(5)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	(27)	-	-	(27)
<i>Total credit loss expense before transition difference</i>	(21)	-	-	(21)
Exchange differences	-	-	-	-
As at 31 December 2019	-	-	-	-

Changes in allowances for expected credit losses under performance guarantees for the year ended 31 December 2020 were as follows:

Legal entities	Total
As at 1 January 2020	4,922
Accrued/(reversed)	62
<i>Total credit loss expense before transition difference</i>	62
Exchange differences	796
As at 31 December 2020	5,780

*(in thousands of Hryvnias, unless otherwise indicated)***22. Commitments and contingencies (continued)****Commitments and contingencies (continued)**

SME	Total
As at 1 January 2020	-
Accrued/(reversed)	20
<i>Total credit loss expense before transition difference</i>	20
Exchange differences	-
	<u>20</u>
As at 31 December 2020	<u>20</u>

Changes in allowances for expected credit losses under performance guarantees for the year ended 31 December 2019 were as follows:

Legal entities	Total
As at 1 January 2019	35,788
Accrued/(reversed)	(29,654)
<i>Total credit loss expense before transition difference</i>	(29,654)
Exchange differences	(1,212)
	<u>4,922</u>
As at 31 December 2019	<u>4,922</u>

SME	Total
As at 1 January 2019	-
Accrued/(reversed)	-
<i>Total credit loss expense before transition difference</i>	-
Exchange differences	-
	<u>-</u>
As at 31 December 2019	<u>-</u>

Below is the analysis of changes in allowances for expected credit losses under the loan commitments for the year ended 31 December 2020:

Legal entities	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	85,078	46	6,082	91,206
New loan commitments	1,636	44	15,003	16,683
Expired loan commitments	(45,100)	(510)	-	(45,610)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(56,394)	56,394	-	-
Transfer to stage 3	-	(3)	3	-
Change of reserve	14,780	545	21,526	36,851
<i>Total credit loss expense before transition difference</i>	(85,078)	56,470	36,532	7,924
Exchange differences	-	124	2,643	2,767
	<u>-</u>	<u>56,640</u>	<u>45,257</u>	<u>101,897</u>
As at 31 December 2020	<u>-</u>	<u>56,640</u>	<u>45,257</u>	<u>101,897</u>

SME	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	-	47	3	50
New loan commitments	2	-	7,459	7,461
Expired loan commitments	-	(4)	-	(4)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(404)	404	-	-
Transfer to stage 3	-	-	-	-
Change of reserve	402	(408)	(6,887)	(6,893)
<i>Total credit loss expense before transition difference</i>	-	(8)	572	564
Exchange differences	-	(15)	139	124
	<u>-</u>	<u>24</u>	<u>714</u>	<u>738</u>
As at 31 December 2020	<u>-</u>	<u>24</u>	<u>714</u>	<u>738</u>

*(in thousands of Hryvnias, unless otherwise indicated)***22. Commitments and contingencies (continued)****Commitments and contingencies (continued)**

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2020	–	1	9,042	9,043
New loan commitments	–	–	113	113
Expired loan commitments	–	–	(1,812)	(1,812)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(2)	2	–	–
Transfer to stage 3	(534)	(2,073)	2,607	–
Change of reserve	536	2,070	(3,891)	(1,285)
<i>Total credit loss expense before transition difference</i>	–	(1)	(2,983)	(2,984)
Exchange differences	–	–	907	907
As at 31 December 2020	–	–	6,966	6,966

Below is the analysis of changes in allowances for expected credit losses under the loan commitments for the year ended 31 December 2019:

<i>Legal entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2019	–	229,660	44,530	274,190
New loan commitments	3,881	–	–	3,881
Expired loan commitments	–	(344)	(13,727)	(14,071)
Transfer to stage 1	84,733	(84,733)	–	–
Transfer to stage 2	(10,459)	10,506	(47)	–
Transfer to stage 3	(549)	(350,314)	350,863	–
Change of reserve	7,472	195,811	(374,673)	(171,390)
<i>Total credit loss expense before transition difference</i>	85,078	(229,074)	(37,584)	(181,580)
Exchange differences	–	(540)	(864)	(1,404)
As at 31 December 2019	85,078	46	6,082	91,206

<i>SME</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2019	–	2,432	255	2,687
New loan commitments	213	48	1	262
Expired loan commitments	–	(1)	(884)	(885)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(10)	10	–	–
Transfer to stage 3	(988)	–	988	–
Change of reserve	785	(2,442)	(332)	(1,989)
<i>Total credit loss expense before transition difference</i>	–	(2,385)	(227)	(2,612)
Exchange differences	–	–	(25)	(25)
As at 31 December 2019	–	47	3	50

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January 2019	–	154	14,031	14,185
New loan commitments	–	–	147	147
Expired loan commitments	–	(61)	(5,546)	(5,607)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(1,408)	1,420	(12)	–
Transfer to stage 3	(1,195)	(5,454)	6,649	–
Change of reserve	2,603	3,942	(5,404)	1,141
<i>Total credit loss expense before transition difference</i>	–	(153)	(4,166)	(4,319)
Exchange differences	–	–	(823)	(823)
As at 31 December 2019	–	1	9,042	9,043

*(in thousands of Hryvnias, unless otherwise indicated)***22. Commitments and contingencies (continued)****Commitments and contingencies (continued)**

Provisions for claims, guarantees and commitments are recorded as liabilities.

As at 31 December 2020, financial commitments and contingencies were secured by cash collateral in the amount of UAH 2,768,436 thousand (2019: UAH 981,558 thousand) (Note 20).

23. Net fee and commission income

Net fee and commission income comprised:

	31 December 2020	31 December 2019
Settlements	1,082,709	894,328
Loan servicing to customers	191,641	156,939
Agent operations in the foreign exchange market	139,598	142,075
Guarantees and letters of credit	157,101	131,841
Transactions with securities	22,690	17,611
Other	24,898	20,311
Fee and commission income	1,618,637	1,363,105
Settlements	(313,384)	(262,971)
Guarantees and letters of credit	(50,716)	(24,247)
Agent operations in the foreign exchange market	(12,535)	(4,359)
Other	(6,022)	(6,960)
Fee and commission expense	(382,657)	(298,539)
Net fee and commission income	1,235,980	1,064,566

24. Net gains on foreign exchange operations and precious metals

Net gains on foreign exchange operations and precious metals comprise:

	31 December 2020	31 December 2019
Dealing	(71,823)	168,029
Translation differences	295,097	(9,293)
Net gains on foreign exchange operations and precious metals	223,274	158,736

*(in thousands of Hryvnias, unless otherwise indicated)***25. Other income**

Other income comprised:

	31 December 2020	31 December 2019
Fees from insurance companies and banks	136,976	109,580
Positive result from sale of property and equipment and intangible assets	39,402	39,099
Gain on marketing support services	29,962	24,144
Penalties received and other fees for overdue payments under loan agreements	27,341	59,183
Compensation costs for utilities of premises leased	10,733	10,769
Recovery of previously written-off assets	8,635	38,132
Positive result from sale of assets held for sale and other property	2,985	393,148
Recovery of litigation expenses	2,735	2,631
Recovery of registration costs	2,162	1,308
Gain from acquired ownership of due to customers	2,121	492
Surplus cash collection at ATMs	2,017	2,748
Income from early repayment of time deposits to customers	–	681
Income from modification of financial assets	268	–
Other	43,483	12,094
Total other income	308,820	694,009

There are cases in the Bank's operations when the accounts, which are to be closed, have balances left unclaimed by the customers. "Gain from acquired ownership of the amounts due to customers" includes the customer funds that the Bank recognized as income in accordance with the Civil Code of Ukraine because of expired ownership of the balances.

26. Changes in expected credit losses

The table below discloses the expected credit loss expenses for the financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2020:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	7	(2,506)	–	–	–	(2,506)
Due from credit institutions	8	(90)	–	–	–	(90)
Loans to customers and finance leases	10	(30,467)	1,215,448	(149,385)	13,022	1,048,618
Investments at fair value through other comprehensive income	11	208,748	–	261,950	–	470,698
Other financial assets	18	(1,759)	1,451	5,202	–	4,894
Financial guarantees	22	19,805	8,217	(138,927)	–	(110,905)
Loan commitments	22	(85,078)	56,461	34,121	–	5,504
Total credit loss expense		108,653	1,281,577	12,961	13,022	1,416,213

The statement of profit or loss and other comprehensive income for the year ended 31 December 2020 also includes changes in the following other provisions:

- ▶ Reversal of provisions for other non-financial assets in the amount of UAH (1,182) thousand (Note 18);
- ▶ Reversal of provisions for legal risks in the amount of UAH (214) thousand (Note 17);
- ▶ Creation of provisions on performance guarantees in the amount of UAH 82 thousand (Note 23).

*(in thousands of Hryvnias, unless otherwise indicated)***26. Changes in expected credit losses (continued)**

The table below discloses the expected credit loss expenses for the financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2019:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Cash and cash equivalents	7	1,650	–	–	–	1,650
Due from credit institutions	8	(148)	–	–	–	(148)
Loans to customers and finance leases	10	374,043	(435,882)	545,971	27,339	511,471
Investments at fair value through other comprehensive income	11	104,408	–	–	–	104,408
Other financial assets	18	1,458	(2,648)	(11,558)	–	(12,748)
Financial guarantees	22	12,550	(32,900)	18,154	–	(2,196)
Loan commitments	22	85,078	(231,612)	(41,977)	–	(188,511)
Total credit loss expense		579,039	(703,042)	510,590	27,339	413,926

The statement of profit or loss and other comprehensive income for the year ended 31 December 2019 also includes changes in the following other provisions:

- ▶ Creation of provisions for other non-financial assets in the amount of UAH 1,379 thousand (Note 18);
- ▶ Creation of provisions for legal risks in the amount of UAH 142,830 thousand (Note 17);
- ▶ Reversal of provisions on performance guarantees in the amount of UAH (29,654) thousand (Note 22).

27. Staff costs and other operating expense

Staff costs and other operating expense comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Salaries and bonuses	1,557,121	1,197,888
Payroll	290,462	224,123
Other staff costs	98,623	66,532
Staff costs	1,946,206	1,488,543
Payments to the Individual Deposit Guarantee Fund	201,705	168,171
Professional services	138,410	172,978
Communications	138,370	119,752
Repairs and maintenance of property and equipment	136,256	144,921
Office supplies	71,030	68,307
Taxes, other than income tax	69,077	78,283
Lease and maintenance of premises	67,008	63,760
Software support	57,418	50,246
Security	38,463	29,930
Marketing and advertising	38,437	43,199
Charity	23,202	38,746
Encashment	22,884	18,055
Result of revaluation of buildings and land plots, assets held for sale, other property	18,702	113,850
Business trips	1,712	8,805
Fines and penalties	277	370
Reward to partners for attraction of customers	43	30,154
Other	49,296	37,237
Other operating expense	1,072,290	1,186,764

(in thousands of Hryvnias, unless otherwise indicated)

28. Risk management

The Bank's risk management system is based on the Bank's size, business model, business scale, types and complexity of operations. The risk management system includes: risk identification, risk measurement (assessment), risk monitoring, risk reporting, risk control, and mitigation of all significant risks for the Bank to be able to measure the capital amount required to cover all significant risks inherent in the Bank's operations.

The risk management system is based on the distribution of obligations between the Bank's divisions with application of a model of three security lines:

- ▶ First line – at the level of business divisions and Bank's operation support divisions;
- ▶ Second line – at the level of risk management divisions, including the department of risk management and social and environmental risk management, and the department of compliance;
- ▶ Third line – at the level of the internal audit department in relation to inspection and assessment of the risk management system efficiency.

Risk management structure

Supervisory Board

The Supervisory Board outlines and approves the risk management strategy, credit policy, risk appetite statement, individual risk management policies, going concern procurement plan, plan for financing in crisis situations, strategy and operational plan for management of non-performing assets and foreclosed property, determines the risk appetite and sets risk limits, recognizes the sources of capitalization and other Bank's financing, considers reporting on the Bank's risk profile, reviews the results of stress-testing, approves CRO's appointment and dismissal, identifies cases of CRO's prohibition (veto), ensures the functioning of the risk management system and control over its effectiveness.

Risk Management Committee of the Supervisory Board

The Risk Management Committee of the Supervisory Board ensures the availability and updates of the internal regulations governing the Bank's risk management process and credit policy, regularly monitors and analyses the current profile of risks assumed by the Bank, monitors the compliance with the risk appetite amounts specified in the risk appetite statement.

Management Board

The Management Board is responsible for the overall risk management and for implementation of risk strategies and principles approved by the Supervisory Board. The Management Board delegates the operational risk management authority to the Bank's collegial structures and sets the authority limits for such collegial structures.

Collegial structures of the Management Board

Credit Council, Credit Committee, Committee for Methodological Support of Retail, Small and Microbusiness Risk Management, Commission for Problem Borrowers, Commission for Monitoring of Credit Operations of Clients, Credit Commissions of Directories manage the credit risk within the limits of authorities delegated to them by the Management Board.

The Assets and Liabilities Management Committee manages the liquidity risk, interest rate risk and market risk within the limits of authorities delegated by the Management Board.

The Operational Risk Management Committee manages the operational risk within the limits of authorities delegated by the Management Board.

The Information Security Management Committee manages the information risk as a component of the operational risk within the limits of authorities delegated by the Management Board.

(in thousands of Hryvnias, unless otherwise indicated)

28. Risk management (continued)

Risk management structure (continued)

CRO (Chief Risk Officer) and its subordinate risk management divisions

The CRO and its subordinate risk management divisions ensure timely identification, measurement, monitoring, control and reporting of significant risks, prepare and submit risk reports to the Supervisory Board, Risk Management Committee of the Supervisory Board, Management Board, collegial structures of the Management Board, develop and update the Bank's methodology, risk assessment tools and models, ensure coordination of risk management related work with other structural units of the Bank, calculate the Bank's risk profile, provide monitoring and prevention of violations of risk appetite amounts and risk limits, control the approximation of risk indicators to the approved risk amounts and risk limits and initiate measures to prevent their violations, carry out stress testing, prepare conclusions for adoption of credit decisions both for new loans and for making changes to the conditions of the existing loans, prepare conclusions on the risks inherent in new products before their introduction for the appropriate management decisions to be taken.

Risk appetite statement

The Bank determines (declares) the aggregate risk appetite by setting the aggregate risk limits and the risk appetite for individual risks by setting risk limits for significant risks, which are defined by the Risk Management Strategy currently effective at JSB "UKRGASBANK":

- ▶ Credit risk;
- ▶ Liquidity risk;
- ▶ Interest rate risk;
- ▶ Market risks;
- ▶ Operational risk;
- ▶ Compliance risk;
- ▶ Environmental risk;
- ▶ Social risk.

The statement is based on the assumptions underlying the Bank's Budget, taking into account the prudential requirements of the National Bank of Ukraine (including those set for systemically important banks) and covenants, which the Bank has undertaken to comply with according to the agreements with international financial institutions.

The aggregate risk appetite includes the requirements to maintain the target credit rating on an international scale, comply with capital ratios and capital buffers, including with due consideration of expected changes in prudential and regulatory requirements.

Risk appetite for credit risk includes a system of indicators to control the quality of the loan portfolio (a portion of non-performing assets and foreclosed property), the value of credit risk, the limit of risk concentration by largest borrowers, industries and more.

Risk appetite for liquidity risk includes minimum liquidity coverage ratios (LCRs) in all currencies and separately in foreign currencies, a net stable funding ratio (NSFR), and the limit of risk concentration in liabilities.

Risk appetite for interest rate risk includes the sensitivity of net interest income and the economic value of capital to parallel/non-parallel shifts in yield curves in major currencies.

Risk appetite for market risks is set as the maximum values of items sensitive to market risk and as the value at risk calculated using a parametric model based on Student's t-distribution with 7 degrees of freedom with a confidence interval of 99% over the horizon of 10 trading days.

Risk appetite for operational risk is set as the maximum amount of direct losses from the occurrence of operational risk at the year-end. At the same time, regardless of the cost of the incident and the amount of potential damage, the Bank has established zero tolerance for operational risks associated with incidents of internal fraud, negligence, disruption of the continuity of critical business processes.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Credit risk**

Credit risk is the risk that the Bank will incur damage or incremental loss or suffer shortfall in expected profit, because its borrower/counterparty failed to discharge its contractual obligations.

The Supervisory Board approved the Credit Policy, which defines the main areas of lending and regulates the basic principles and conditions for assuming the credit risk. To manage the risk of concentration of the loan portfolio, the Bank monitors the loan portfolio structure and, if necessary, sets the appropriate limits.

As at 31 December 2020, the total amount of indebtedness under loan agreements and off-balance sheet liabilities, guarantees and letters of credit, which the Bank recognized as non-performing, amounted to UAH 7,129,759 thousand (2019: UAH 7,834,661 thousand), including

- ▶ bad debts in the amount of UAH 4,517,016 thousand (2019: UAH 5,306,229 thousand);
- ▶ indebtedness, for which the Bank expects repayment due to restructuring in the amount of UAH 2,612,743 thousand (2019: UAH 2,528,432 thousand).

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to their nominal amount under the applicable contracts.

Credit-related commitment risks

The Bank makes guarantees available to its customers, which provide that the Bank should make payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit. These guarantees expose the Bank to the risks similar to credit risks, which are mitigated by using the same control processes and policies.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

As at 31 December 2020, the credit rating of Ukraine, according to the international rating agencies, was B (2019: B). The Bank uses the following approach to determining the rating based on the ratings of several international rating agencies:

- ▶ If there are two different ratings, the rating of the rating agency that is lower is taken into account;
- ▶ If there are three different ratings, the rating of the rating agency that is the lower of the two highest ones is taken into account.

Investments at fair value through other comprehensive income, in particular: Ukrainian domestic government bonds and unrated municipal bonds, were assigned by the Bank to the B level category in accordance with the sovereign credit rating of Ukraine.

Other balances of cash and cash equivalents, due from credit institutions and investments at fair value through other comprehensive income are classified with reference to the current credit ratings assigned by the international rating agencies. In the event a counterparty does not have an international rating assigned to it at the reporting date, the Bank used the ratings assigned to the parent companies by the international rating agencies, and if the counterparty is owned by the government or the state, the corresponding sovereign rating of the owner's country was used. The highest possible rating is AAA. The investment grade of financial assets corresponds to ratings from AAA to BBB-. The financial assets, which have ratings lower than BBB-, are classified as a speculative grade according to the acceptable international practice.

The following table details the credit ratings of the Bank's financial assets:

	AAA – A	BBB – B	Lower than B	Unrated	31 December 2020
Cash and cash equivalents (other than cash on hand)	15,589,507	17,016,564	–	–	32,606,071
Due from credit institutions	–	21,880	–	639,611	661,491
Derivative financial assets	103	244	–	4,839	5,186
Investments at fair value through other comprehensive income	5,687,678	50,072,158	–	274,220	56,034,056

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Credit risk (continued)**

As at 31 December 2019, the classification of the Bank's financial assets by credit ratings is as follows:

	AAA – A	BBB – B	Lower than B	Unrated	31 December 2019
Cash and cash equivalents (other than cash on hand)	24,262,370	3,164,519	17,289,947	–	44,716,836
Due from credit institutions	17,449	22,892	–	253,229	293,570
Derivative financial assets	–	–	–	8	8
Investments at fair value through other comprehensive income	7,205,461	23,200,189	–	4,718	30,410,368

Impairment assessment

The Bank calculates the expected credit losses based on several probability-weighted scenarios to measure the expected cash shortfalls discounted using EIR. Cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. ECL calculation methods are outlined below. The key elements of the calculation are as follows:

Probability of Default (PD)	The <i>Probability of Default</i> is an estimate of the likelihood that counterparties fail to discharge their Default (PD) contractual obligations.
Exposure at Default (EAD)	The <i>Exposure at Default</i> is the amount of debt on the asset that the counterparty is likely to fail to perform at any future date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.
Loss Given Default (LGD)	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default by the counterparty occurs. LGD is calculated using a few scenarios. Estimates of probabilities for all scenarios and sub-types of loss in the event of default are combined in the overall assessment. The probability of scenarios for non-performing debt maintenance is calculated based on historical data. The level of losses in the case of default of loans with collateral is determined on the basis of collateral foreclosure value, taking into account the potential cash shortage in comparison with the book value (discount) and the term of realization.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore transfers it to Stage 3 (credit-impaired) for ECL calculations in all cases when the debt becomes 90 days past due on its contractual payments or in the following cases, regardless of the number of days of debt overdue:

- ▶ Internal rating of the borrower indicates default or near-default;
- ▶ The debtor (or any legal entity within the debtor's group) files for bankruptcy;
- ▶ The terms of the agreement have been changed, without which the client would not be able to perform further debt servicing.

Significant increase in credit risk

In order to determine the existence of a significant increase in credit risk since the initial recognition of a financial instrument, the Bank uses certain lists of events that contain signs of an increase in credit risk. Regardless of occurrence of the events having signs of an increase in credit risk, it is considered that over-30-days past due payments is the evidence of a significant increase in credit risk since the initial recognition of a financial instrument.

The default probability is estimated using the distribution of borrowers by the number of days past due. Other input data used in models is the economic indicators.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Impairment assessment on individual and collective basis**

Dependent on the factors below, the Bank calculates ECLs either on individual or on collective basis.

The Bank calculates the ECLs on an individual basis for the assets, which are included in Stage 2 or Stage 3 and which outstanding balance of debt per group of counterparties exceeds the limit set for the respective business segment and is individually significant.

The Bank combines the financial assets assessed on collective basis in homogeneous groups depending on the internal features of loans, for example, payment days past due, type of product, etc.

Forward-looking information and economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- ▶ GDP growth;
- ▶ Inflation (consumer price index), to the corresponding month of the previous year (%);
- ▶ Discount rates of the National Bank of Ukraine;
- ▶ Unemployment rates;
- ▶ Foreign exchange rates;
- ▶ Prices for iron ore;
- ▶ Prices for wheat;
- ▶ Growth of real wages, YoY.

The Bank has carried out the statistical analysis of dependence that the default probability of the Bank's customers has on economic indicators. The Bank has identified the indicators most closely related to the level of borrowers' defaults in each of the portfolio segments.

For obtaining forecast information, the Bank uses external sources (forecasts by the NBU, the Cabinet of Ministers of Ukraine, the Ministry of Finance of Ukraine and other government bodies, forecasts by the IMF, the World Bank and other leading international organizations, forecasts by leading international rating agencies (companies), such as Moody's, Fitch Ratings, S&P Global Ratings and Bloomberg information system data. The table below gives the forecast values of the economic indicators used in economic scenario for calculation of the ECL.

Key drivers	ECL scenario	Probability, %	2021	2022
Nominal GDP growth, %	Upside	33	11.1	9.5
	Base case	33	9.8	9.2
	Downside	33	8.2	8.7
Unemployment rates	Upside	33	7.6	7.6
	Base case	33	9.1	8.5
	Downside	33	10.5	10.5

As at 31 December 2020, the Bank changed its estimate of the probability of each scenario, taking into account the uncertainty caused by the events surrounding the spread of the COVID-19 pandemic. Thus, for each of the scenarios the same weight was determined, equal to 33.33%. If the Bank had applied previous year's approaches to determining the probability of scenarios, the amount of allowance for expected credit losses on the Bank's assets would have decreased by UAH 2,748 thousand.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Forward-looking information and economic scenarios (continued)**

The credit quality of financial assets is managed by the Bank using the internal credit ratings, as described above. The table below shows the credit quality by class of loan-related asset in the statement of financial position, based on the Bank's credit rating system.

<i>As at 31 December 2020</i>	<i>Notes</i>		<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents (other than cash on hand)	7	Stage 1	32 448,585	45,013	115,997	–	32 609,595
Due from credit institutions	8	Stage 1	361,995	123,873	175,907	–	661,775
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	11,228	11,228
Loans to customers and finance leases at amortized cost:	10						
- Legal entities		Stage 1	2,325,321	20,031,566	4,013,923	–	26,370,810
		Stage 2	–	3,134,124	8,407,481	–	11,541,605
		Stage 3	–	–	1,423,417	1,990,519	3,413,936
		POCI	–	–	298,922	–	298,922
- SME		Stage 1	1,704,857	2,588,040	411,438	–	4,704,335
		Stage 2	99,940	862,664	1,062,896	–	2,025,500
		Stage 3	–	61,701	819,979	74,055	955,735
- Individuals		Stage 1	2,828,444	237,598	114	338	3,066,494
		Stage 2	240	23,309	6,291	–	29,840
		Stage 3	–	75,947	192	2,388,123	2,464,262
		POCI	–	2,089	–	3,335	5,424
Investments at fair value through other comprehensive income	11	Stage 1	54,440,291	–	–	–	54,440,291
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	2,124,499	2,124,499
Undrawn loan commitments:	22						
- Legal entities		Stage 1	285,268	2,468,365	902,929	–	3,656,562
		Stage 2	–	406,041	1,718,300	–	2,124,341
		Stage 3	–	–	163,708	27,600	191,308
- SME		Stage 1	359,176	459,691	109,568	–	928,435
		Stage 2	5,746	2,129	14	–	7,889
		Stage 3	–	685	121	–	806
- Individuals		Stage 1	1,451,612	11,757	518	1,767	1,465,654
		Stage 2	–	594	138	–	732
		Stage 3	–	903	27	6,277	7,207
Financial guarantees and letters of credit (other than covered letter of credit):	22						
- Legal entities		Stage 1	195,439	3,136,888	2,524,954	–	5,857,281
		Stage 2	–	262,423	196,337	–	458,760
		Stage 3	–	–	452	–	452
- SME		Stage 1	11,387	12,432	9,574	–	33,393
		Stage 2	–	–	1,429	–	1,429
		Stage 3	–	–	10,213	–	10,213
Total			<u>96,518,301</u>	<u>33,947,832</u>	<u>22,374,839</u>	<u>6,627,741</u>	<u>159,468,713</u>

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Forward-looking information and economic scenarios (continued)**

<i>As at 31 December 2019</i>	<i>Notes</i>	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Impaired</i>	<i>Total</i>	
Cash and cash equivalents (other than cash on hand)	7	Stage 1	44,656,964	64,454	-	-	44,721,418
Due from credit institutions	8	Stage 1	21,724	18,949	253,229	-	293,902
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	9,406	9,406
Loans to customers and finance leases at amortized cost:	10						
- Legal entities		Stage 1	2,324,692	18,832,901	5,602,723	-	26,760,316
		Stage 2	-	2,692,099	1,152,252	-	3,844,351
		Stage 3	49,267	282,452	1,619,889	2,686,061	4,637,669
		POCI	-	-	270,476	-	270,476
- SME		Stage 1	1,189,833	1,998,640	1,173,338	-	4,361,811
		Stage 2	3,379	109,870	132,469	-	245,718
		Stage 3	5,577	56,647	510,344	87,095	659,663
- Individuals		Stage 1	2,588,997	170,593	38	25	2,759,653
		Stage 2	177	10,176	5,305	-	15,658
		Stage 3	-	96,078	1,103	2,558,028	2,655,209
Investments at fair value through other comprehensive income	11	Stage 1	29,089,341	1,431,662	-	-	30,521,003
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	-	-
Undrawn loan commitments:	22						
- Legal entities		Stage 1	406,927	4,485,500	1,682,457	-	6,574,884
		Stage 2	-	8,662	584,715	-	593,377
		Stage 3	-	1,386	11,609	38,600	51,595
- SME		Stage 1	279,290	249,943	129,449	-	658,682
		Stage 2	50	7,331	11	-	7,392
		Stage 3	-	8	-	-	8
- Individuals		Stage 1	884,545	27,578	373	1,116	913,612
		Stage 2	-	1,848	511	-	2,359
		Stage 3	-	2,018	95	7,379	9,492
Financial guarantees and letters of credit (other than covered letter of credit):	22						
- Legal entities		Stage 1	159,847	2,359,306	245,932	-	2,765,085
		Stage 2	-	417	478,658	-	479,075
		Stage 3	-	147,963	-	-	147,963
- SME		Stage 1	15,300	12,921	13,456	-	41,677
		Stage 2	400	-	-	-	400
		Stage 3	-	-	-	-	-
Total			81,676,310	33,069,402	13,868,432	5,387,710	134,001,854

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Forward-looking information and economic scenarios (continued)**

The following table describes the grouping on balances by rating categories.

<i>Description of the internal rating level</i>	<i>Number of days past due</i>	<i>Level of internal rating</i>	<i>Rating of external international rating agency (Fitch), non-resident counterparties</i>	<i>Rating of external international rating agency (Fitch), resident counterparties</i>
High grade	Overdue payments are not present	A1, A2, A3	AAA+ to BBB	According to the interbank rating established for resident banks with grades 1, 2 and B (rating of Ukraine), which includes domestic government bonds and municipal bonds, and which applies to the Operational Department of the NBU and PJSC "SETTLEMENT CENTER" in accordance with para. 41 of NBU Regulation No. 351 dated 30 June 2016.
Standard grade	From 1 to 30 days, from 31 to 60 days	B1, B2, B3	BB+ to B	According to the intrabank rating established for resident banks with grade 3 (values of the international scale rating "B" and below or "NR") and other issuers by category of investment available for sale, which have no rating and are attributed to Stage 1
Sub-standard grade	From 61 to 90 days	C1, C2, C3, D1, D2, D3	CCC to C	According to the intrabank rating established for resident banks with grade 4 (values of the international scale rating "B" and below or "NR") and other issuers by category of investment available for sale, which have no rating and are attributed to Stage 2
Impaired	More than 90 days	E	D	According to the intrabank rating established for resident banks with grade 5 (values of the international scale rating "D" and below or "NR") and other issuers by category of investment available for sale, which have no rating and are attributed to Stage 3

Geographical concentration

The following table summarizes geographical concentration of monetary assets and liabilities:

	31 December 2020			
	Ukraine	OECD countries	CIS and other foreign banks	Total
Assets				
Cash and cash equivalents	11,230,499	24,007,958	49,537	35,287,994
Precious metals	2,401	–	–	2,401
Due from credit institutions	647,625	13,866	–	661,491
Derivative financial assets	4,930	256	–	5,186
Loans to customers and finance leases	47,517,583	–	–	47,517,583
Investments at fair value through other comprehensive income	50,346,378	5,687,678	–	56,034,056
Other assets	184,858	–	–	184,858
	109,934,274	29,709,758	49,537	139,693,569
Liabilities				
Due to credit institutions	3,933,175	1,736,503	–	5,669,678
Derivative finance liabilities	226,669	982	–	227,651
Due to customers	126,498,709	–	–	126,498,709
Provisions for guarantees and commitments	406,111	–	–	406,111
Lease liabilities	126,148	–	–	126,148
Other liabilities	765,151	–	–	765,151
	131,955,963	1,737,485	–	133,693,448
Difference between assets and liabilities	(22,021,689)	27,972,273	49,537	6,000,121

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Geographical concentration (continued)**

	31 December 2019			Total
	Ukraine	OECD countries	CIS and other foreign banks	
Assets				
Cash and cash equivalents	19,097,979	27,248,016	66,446	46,412,441
Precious metals	1,428	-	-	1,428
Due from credit institutions	257,492	36,078	-	293,570
Derivative financial assets	8	-	-	8
Loans to customers and finance leases	38,985,679	-	-	38,985,679
Investments at fair value through other comprehensive income	23,204,907	7,205,461	-	30,410,368
Other assets	176,893	-	-	176,893
	81,724,386	34,489,555	66,446	116,280,387
Liabilities				
Due to credit institutions	4,620,895	1,114,037	-	5,734,932
Derivative financial liabilities	43,624	-	-	43,624
Due to customers	103,359,581	-	-	103,359,581
Provisions for guarantees and commitments	478,949	-	-	478,949
Lease liabilities	131,747	-	-	131,747
Other liabilities	657,550	-	-	657,550
	109,292,346	1,114,037	-	110,406,383
Difference between assets and liabilities	(27,567,960)	33,375,518	66,446	5,874,004

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations as they fall due without incurring unacceptable losses, or as a result of its inability to manage unplanned cash outflows, changes in funding sources and/or off-balance sheet liabilities. To mitigate this risk, management uses different sources of funding in addition to the main base of deposits. Management of the Bank also performs day-to-day liquidity management activities, with due account for balances on the correspondent accounts and cash inflow/outflow projections; management of current liquidity (up to 1 month) through identification of the Bank's requirements for liquid assets and assessment of the liquidity gaps for the period; management of liquidity over one month through assessment of mismatch between maturities on assets and liabilities and development of remedial measures to maintain the Bank's relevant liquidity levels in the future.

Analysis of financial liabilities grouped based on dates from the reporting date to the maturity date is carried out in accordance with the applicable agreement.

As at 31 December 2020 and 2019, the Bank complied with the regulatory requirements of the National Bank of Ukraine regarding the minimum level of liquidity coverage ratio in all currencies and separately in foreign currencies (regulatory values as at 31 December 2020 are not less than 100%, as at 31 December 2019 – not less than 100%) for the liquidity coverage ratio in all currencies and not less than 50% for the liquidity coverage ratio in foreign currencies). The values of liquidity coverage ratios in all currencies and separately in foreign currencies are as follows:

	31 December 2020	31 December 2019
All-currency LCR, liquidity coverage ratio for all currencies	226.99%	199.01%
Foreign currency LCR, liquidity coverage ratio in foreign currency	151.72%	143.77%

Analysis of assets and liabilities of the Bank by the estimated dates of their recovery or repayment is discussed in Note 30.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Liquidity risk and funding management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The tables below summarize the information on undiscounted cash flows of financial liabilities as at 31 December 2020 and 2019 based on the remaining time to maturity according to the terms of agreements. Gross settled derivative instruments that are presented in terms of amounts receivable and payable as per maturities. Liabilities that are subject to repayment on demand are to be repaid on the earliest possible date. However, the Bank expects that most customers will not demand repayment on the earliest possible date.

Financial liabilities As at 31 December 2020	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to credit institutions	2,745,711	1,749,843	1,174,644	-	5,670,198
Gross settled derivative financial instruments					
- contractual amounts receivable	(4,883,748)	-	-	-	(4,883,748)
- contractual amounts payable	5,111,399	-	-	-	5,111,399
Due to customers	106,358,378	18,446,773	2,503,506	12,611	127,321,268
Lease liabilities	20,311	56,162	77,591	-	154,064
Other liabilities	765,151	-	-	-	765,151
Total undiscounted financial liabilities	110,117,202	20,252,778	3,755,741	12,611	134,138,332

Financial liabilities As at 31 December 2019	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to credit institutions	3,232,702	1,411,506	1,151,353	136,128	5,931,689
Gross settled derivative financial instruments					
- contractual amounts receivable	(1,529,595)	-	-	-	(1,529,595)
- contractual amounts payable	1,573,219	-	-	-	1,573,219
Due to customers	88,551,534	14,911,856	887,177	1,674	104,352,241
Lease liabilities	16,862	43,890	82,652	-	143,404
Other liabilities	657,550	-	-	-	657,550
Total undiscounted financial liabilities	92,502,272	16,367,252	2,121,182	137,802	111,128,508

The table below shows the contractual maturity of commitments and contingencies of the Bank. Each undrawn loan commitment is included in the period containing the earliest date when a customer may require its fulfilment. For the issued financial guarantee contracts, the maximum guarantee amount is attributed to the earliest period, in which the guarantee could be required for settlement.

	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2020	1,787,053	4,317,128	2,242,281	396,044	8,742,506
31 December 2019	4,228,146	1,192,740	2,720,297	-	8,141,183

Financial guarantees and letters of credit, including those with contractual maturities of more than 3 months of UAH 7,090,424 thousand (2019: UAH 3,913,037 thousand), require the Bank to make payments on behalf of customers in the case of a specific action, respectively, payments may be required before the expiration of the contractual term of these obligations. The Bank does not expect to have to meet all contractual and contingent obligations before they expire.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Operational risk**

Operational risk is the risk that the Bank will incur damage or incremental loss or suffer shortfall in expected profit due to errors or deficiencies in the internal processes, willful or negligent acts by the staff or others, failures in information systems or due to external events.

Operational risk management is the responsibility of the Bank's Management Board, which is authorized to establish the principles to ensure the methodology for effective management and monitoring of operational risks. The Operational Risk Management Committee is a collegial structure of the Management Board, which functions include implementing the operational risk management policies, improving the business processes, implementing the internal control systems/additional controls, developing measures based on reviews of operational incidents.

Interest rate risk

Interest rate risk is the existing or potential risk to the Bank's earnings and capital arising from adverse changes in interest rates on the market. This risk affects both the profitability of the Bank and the economic value of its assets, liabilities and off-balance sheet instruments. The table below shows the sensitivity to possible changes in interest rates, with constant values of all other variables of the Bank's statement of profit or loss and other comprehensive income.

Sensitivity of the statement of profit or loss and other comprehensive income reflects the effect of the assumed changes in interest rates on net interest income for one year, which is a result of gaps between maturities of assets and liabilities before revision of the interest rate that reflects maturity before revision of the base rate for instruments with a floating (variable) interest rate and maturity for instruments with a fixed interest rate.

Sensitivity of statement of profit or loss and other comprehensive income (method of liquidity gaps before revision)

	31 December 2020					
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets	45,423,432	12,981,350	48,929,742	26,303,540	2,537,509	136,175,573
Liabilities	93,899,571	16,922,996	17,059,915	4,259,553	33,684	132,175,719
Difference between assets and liabilities	(48,476,139)	(3,941,646)	31,869,827	22,043,987	2,503,825	3,999,854
1%	(464,840)	(32,829)	119,621			(378,048)
-1%	464,840	32,829	(119,621)			378,048
	31 December 2019					
	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets	52,925,718	12,777,521	27,679,382	15,026,617	5,586,296	113,995,534
Liabilities	84,947,616	8,665,638	13,341,046	2,003,152	130,938	109,088,390
Difference between assets and liabilities	(32,021,898)	4,111,883	14,338,336	13,023,465	5,455,358	4,907,144
1%	(307,059)	34,247	53,818			(218,994)
-1%	307,059	(34,247)	(53,818)			218,994

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and security prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risks for non-trading positions are managed and monitored using sensitivity analysis.

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Currency risk**

Currency risk is the existing or potential risk for the Bank's earnings or capital arising out of unfavourable fluctuations in foreign exchange rates and precious metal prices. The Assets and Liabilities Management Committee sets limits on positions by foreign currencies based on the requirements of the National Bank of Ukraine. Currency positions are monitored on a daily basis.

The major foreign currency denominated positions of assets and liabilities as at 31 December 2020 are as follows:

	<i>UAH</i>	<i>USD</i>	<i>EUR</i>	<i>Other currencies</i>	<i>Total</i>
Assets					
Cash and cash equivalents	9,426,754	16,129,350	9,395,292	336,598	35,287,994
Precious metals	–	–	–	2,401	2,401
Due from credit institutions	588,564	72,927	–	–	661,491
Loans to customers and finance leases	20,260,259	13,622,689	13,634,635	–	47,517,583
Investments at fair value through other comprehensive income	36,032,871	18,957,236	1,043,949	–	56,034,056
Investment property	149,255	–	–	–	149,255
Property and equipment, intangible assets	1,348,538	–	–	–	1,348,538
Right-of-use assets	157,200	–	–	–	157,200
Other property	770,248	–	–	–	770,248
Current income tax assets	39,429	–	–	–	39,429
Other assets	681,374	16,457	31,513	7	729,351
Total assets	69,454,492	48,798,659	24,105,389	339,006	142,697,546
Liabilities					
Due to credit institutions	276,962	1,620,986	3,700,786	70,944	5,669,678
Due to customers	63,059,768	44,176,943	19,050,638	211,360	126,498,709
Provisions for guarantees, commitments and legal risks	371,522	9,002	25,587	–	406,111
Lease liabilities	126,148	–	–	–	126,148
Current income tax liabilities	–	–	–	–	–
Deferred income tax liabilities	60,806	–	–	–	60,806
Other liabilities	1,038,636	51,887	71,761	2,514	1,164,798
Total liabilities	64,933,842	45,858,818	22,848,772	284,818	133,926,250
Net long/(short) recognized position	4,520,650	2,939,841	1,256,617	54,188	
Assets receivable	4,237,183	666,159	740,511	36,995	5,680,848
Assets payable	–	(3,693,096)	(2,129,537)	(80,680)	(5,903,313)
Net long/(short) unrecognized position	4,237,183	(3,026,937)	(1,389,026)	(43,685)	
Total long/(short) recognized and unrecognized position	8,757,833	(87,096)	(132,409)	10,503	

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Currency risk (continued)**

The major foreign currency denominated positions of assets and liabilities as at 31 December 2019 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	18,355,004	24,668,283	3,151,372	237,782	46,412,441
Precious metals	–	–	–	1,428	1,428
Due from credit institutions	257,492	36,078	–	–	293,570
Loans to customers and finance leases	21,236,596	8,209,145	9,539,938	–	38,985,679
Investments at fair value through other comprehensive income	10,873,389	18,944,838	592,141	–	30,410,368
Investment property	228,857	–	–	–	228,857
Property and equipment, intangible assets	1,433,633	–	–	–	1,433,633
Right-of-use assets	166,159	–	–	–	166,159
Other property	735,298	–	–	–	735,298
Current income tax assets	–	–	–	–	–
Deferred income tax assets	–	–	–	–	–
Other assets	424,679	14,427	30,600	96	469,802
Total assets	53,711,107	51,872,771	13,314,051	239,306	119,137,235
Liabilities					
Due to credit institutions	281,186	2,619,914	2,791,408	42,424	5,734,932
Due to customers	45,387,590	48,047,045	9,811,624	113,322	103,359,581
Provisions for guarantees, commitments and legal risks	347,891	11,241	119,817	–	478,949
Lease liabilities	131,747	–	–	–	131,747
Current income tax liabilities	21,723	–	–	–	21,723
Deferred income tax liabilities	83,681	–	–	–	83,681
Other liabilities	578,163	224,575	184,485	41,299	1,028,522
Total liabilities	46,831,981	50,902,775	12,907,334	197,045	110,839,135
Net long/(short) recognized position	6,879,126	969,996	406,717	42,261	
Assets receivable	1,500,967	40,569	13,211	1,551	1,556,298
Assets payable	–	(1,066,987)	(504,132)	(28,689)	(1,599,808)
Net long/(short) unrecognized position	1,500,967	(1,026,418)	(490,921)	(27,138)	
Total long/(short) recognized and unrecognized position	8,380,093	(56,422)	(84,204)	15,123	

The following table presents the currencies in which the Bank has significant positions as at 31 December for monetary assets and liabilities. The analysis involves calculation of the impact of a possible change in exchange rates against the Ukrainian Hryvnia on the statement of profit or loss and other comprehensive income (due to the presence of non-trading monetary assets and liabilities which fair value is sensitive to changes in exchange rates). The negative value shown in the table reflects the potential net decrease in the statement of profit or loss and other comprehensive income or equity, and the positive values reflect the potential net increase.

Currency	Increase in foreign currency exchange rate, % 31 December 2020	Effect on profit before tax 31 December 2020	Increase in foreign currency exchange rate, % 31 December 2019	Effect on profit before tax 31 December 2019
USD	15.00%	(13,064)	11.00%	(6,206)
EUR	16.00%	(21,186)	13.00%	(10,947)

*(in thousands of Hryvnias, unless otherwise indicated)***28. Risk management (continued)****Currency risk (continued)**

Currency	Decrease in foreign currency exchange rate, % 31 December 2020	Effect on profit before tax 31 December 2020	Decrease in foreign currency exchange rate, % 31 December 2019	Effect on profit before tax 31 December 2019
USD	(12.00%)	10,452	(14.00%)	7,899
EUR	(14.00%)	18,537	(15.00%)	12,631

29. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The estimated fair value has been determined by the Bank using the available market information, where it exists, and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

The Bank uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly on market data; and
- ▶ Level 3: techniques, which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings

Some of the Bank's financial assets and financial liabilities as well as the Bank's buildings are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities is determined (in particular, the valuation techniques and inputs used):

Assets/liabilities	Fair value hierarchy	Valuation techniques and key inputs
Investments at fair value through other comprehensive income	2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable either directly or indirectly. The estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active.
Investments at fair value through other comprehensive income	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include assumptions regarding future financial performance of the issuer, its risk profile and economic assumptions with respect to the industry and geographical jurisdiction where the issuer operates.
Loans to customers at fair value through profit or loss	3	Discounted cash flows. Future cash flows are estimated using observable market data as well as non-observable market data. Non-observable data include assumptions about the borrower's future financial performance, risk profile, and economic assumptions about the industry and geographical jurisdiction in which the borrower operates.
Derivative financial instruments	2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (observable foreign exchange rates at the end of the reporting period) and forward exchange rates discounted at a rate reflecting a credit risk from different counterparties.
Buildings and land plots, investment property	3	The Bank engages professional independent appraisers to determine the fair value of its buildings and land plots and investment property by using a comparative approach to evaluation and income approach for the items for which there are no market comparatives. In the comparative approach to evaluation, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of a property item). The main parameter used in this valuation technique is the price per square meter of a property item.

*(in thousands of Hryvnias, unless otherwise indicated)***29. Fair value measurements (continued)****Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings (continued)**

The table below provides the analysis of assets and liabilities recognized in the statement of financial position at fair value on initial recognition using a three-level fair value hierarchy:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investments at fair value through other comprehensive income	5,687,678	50,335,066	11,312	56,034,056
Derivative financial assets	–	5,186	–	5,186
Investment property	–	–	149,255	149,255
Buildings and land plots	–	–	928,721	928,721
Loans to customers at fair value through profit or loss	–	–	123,109	123,109
	5,687,678	50,340,252	1,212,397	57,240,327
Liabilities measured at fair value				
Derivative financial liabilities	–	227,651	–	227,651
Total	–	227,651	–	227,651

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investments at fair value through other comprehensive income	7,205,461	23,193,529	11,378	30,410,368
Derivative financial assets	–	8	–	8
Investment property	–	–	228,857	228,857
Buildings and land plots	–	–	769,072	769,072
	7,205,461	23,193,537	1,009,307	31,408,305
Liabilities measured at fair value				
Derivative financial liabilities	–	43,624	–	43,624
Total	–	43,624	–	43,624

Movements in Level 3 financial instruments measured at fair value

The table below shows changes in the amounts of Level 3 assets and liabilities that are measured at fair value:

Financial assets	As at 1 January 2020	Total gains/ (losses) recognized in the statement of profit or loss	Acquisition	Repayment	Revaluation surplus recognized as part of equity	As at 31 December 2020
Investments at fair value through other comprehensive income	11,378	–	–	–	(66)	11,312
Loans to customers at fair value through profit or loss	–	11,645	161,657	(50,193)	–	123,109

*(in thousands of Hryvnias, unless otherwise indicated)***29. Fair value measurements (continued)****Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of buildings (continued)***Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions*

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2020		31 December 2019	
	Carrying amount	Impact of possible alternative assumptions	Carrying amount	Impact of possible alternative assumptions
Financial assets				
Investments at fair value through other comprehensive income	11,312	(11,312)	11,378	(11,378)
Loans to customers at fair value through profit or loss	123,109	2,011/(1,943)	-	-

To analyse the sensitivity of the loans to customers at fair value through profit or loss, the assumption of changes in the discount rate of future cash flows was applied. Decrease of discount rates by 10% will increase the carrying value by UAH 2,011 thousand. The increase of the discount rates by 10% will reduce the carrying value by UAH 1,943 thousand.

Fair value of financial assets and liabilities not carried at fair value

The estimated fair values of financial assets and liabilities are determined using market prices, discounted cash flows and other appropriate valuation techniques and may not be indicative of the fair value of those instruments at the date these financial statements are authorized for issue. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Cash and cash equivalents and due from credit institutions comprise balances on correspondent accounts and short-term deposits. Due to short-term life of those financial instruments and corresponding actual interest rates to those prevailing money market interest rates for similar financial instruments, the carrying amounts of cash and cash equivalents, due from banks balances approximate their fair value.

To determine fair value, projected cash flows are discounted at market rates established at the reporting date for similar instruments.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation techniques and key outputs
Loans to customers and finance leases	3	Discounted cash flows. Future cash flows are estimated based on both observable and unobservable inputs. Unobservable inputs include the assumptions regarding future financial performance of the counterparty, its risk profile and economic assumptions with respect to the industry and geographical jurisdiction where the counterparty operates. The most significant outputs included a discount rate reflecting the credit risk of counterparties.
Due from credit institutions		
Due to credit institutions	3	Discounted cash flows.
Due to customers		Future cash flows are estimated based on unobservable inputs.

*(in thousands of Hryvnias, unless otherwise indicated)***29. Fair value measurements (continued)****Fair value of financial assets and liabilities not carried at fair value (continued)**

	31 December 2020			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	35,287,994	-	-	35,287,994
Due from credit institutions	-	-	661,491	661,491
Loans to customers and finance leases	-	-	49,787,938	49,787,938
Total	35,287,994	-	50,449,429	85,737,423
Liabilities for which fair values are disclosed				
Due to credit institutions	-	-	5,669,678	5,669,678
Due to customers	-	-	126,693,980	126,693,980
Total	-	-	132,363,658	132,363,658

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	46,412,441	-	-	46,412,441
Due from credit institutions	-	-	293,570	293,570
Loans to customers and finance leases	-	-	39,141,552	39,141,552
Total	46,412,441	-	39,435,122	85,847,563
Liabilities for which fair values are disclosed				
Due to credit institutions	-	-	5,734,932	5,734,932
Due to customers	-	-	103,489,515	103,489,515
Total	-	-	109,224,447	109,224,447

The following 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 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	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	35,287,994	35,287,994	46,412,441	46,412,441
Due from credit institutions	661,491	661,491	293,570	293,570
Loans to customers and finance leases	47,392,435	49,787,938	38,985,679	39,141,552
Total assets	83,341,920	85,737,423	85,691,690	85,847,563
Financial liabilities				
Due to credit institutions	5,669,678	5,669,678	5,734,932	5,734,932
Due to customers	126,498,709	126,693,980	103,359,581	103,489,515
Total liabilities	132,168,387	132,363,658	109,094,513	109,224,447

*(in thousands of Hryvnias, unless otherwise indicated)***30. Analysis of assets and liabilities by maturities**

The table below summarizes assets and liabilities according to the periods when they are expected to be recovered or settled. See Note 28 for the Bank's contractual undiscounted repayment obligations.

	31 December 2020				31 December 2019			
	Within one year	More than one year	Maturity undefined	Total	Within one year	More than one year	Maturity undefined	Total
Cash and cash equivalents	35,287,994	-	-	35,287,994	46,412,441	-	-	46,412,441
Precious metals	2,401	-	-	2,401	1,428	-	-	1,428
Derivative financial assets	5,186	-	-	5,186	8	-	-	8
Due from credit institutions	661,491	-	-	661,491	293,570	-	-	293,570
Loans to customers and finance leases	17,946,031	29,571,552	-	47,517,583	19,799,715	19,185,964	-	38,985,679
Investments at fair value through other comprehensive income	40,489,238	15,544,818	-	56,034,056	17,522,122	12,888,246	-	30,410,368
Investment property	-	-	149,255	149,255	-	-	228,857	228,857
Property and equipment and intangible assets	-	-	1,348,538	1,348,538	-	-	1,433,633	1,433,633
Right-of-use assets	-	-	157,200	157,200	-	-	166,159	166,159
Other property	-	-	770,248	770,248	-	-	735,298	735,298
Current income tax assets	39,429	-	-	39,429	-	-	-	-
Other assets	647,194	82,157	-	729,351	469,802	-	-	469,802
Total	95,078,964	45,198,527	2,425,241	142,702,732	84,499,086	32,074,210	2,563,947	119,137,243
Due to credit institutions	4,586,887	1,082,791	-	5,669,678	4,518,277	1,216,655	-	5,734,932
Derivative financial liabilities	227,651	-	-	227,651	43,624	-	-	43,624
Due to customers	124,035,469	2,463,240	-	126,498,709	102,510,829	848,752	-	103,359,581
Lease liabilities	12,371	113,777	-	126,148	8,522	123,225	-	131,747
Provisions for guarantees and commitments	341,915	64,196	-	406,111	478,949	-	-	478,949
Current income tax liabilities	-	-	-	-	21,723	-	-	21,723
Deferred income tax liabilities	-	60,806	-	60,806	-	83,681	-	83,681
Other liabilities	1,014,088	150,710	-	1,164,798	1,028,522	-	-	1,028,522
Total	130,218,381	3,935,520	-	134,153,901	108,610,446	2,272,313	-	110,882,759
Net amount	(35,139,417)	41,263,007	2,425,241	8,548,831	(24,111,360)	29,801,897	2,563,947	8,254,484

The Bank's management believes that the negative liquidity gap (liquidity gap between financial assets and financial liabilities repayable within one year as at 31 December 2020 amounted to UAH 35,392,245 thousand) that arose is under control and does not threaten the Bank's ability to settle its liabilities in full and in a timely manner. Thus, the Bank has access to secondary reserve of liquid funds represented by:

- ▶ Unencumbered securities – Ukrainian domestic government bonds in the amount of UAH 11,602,900 thousand, municipal bonds in the amount of UAH 1,116,402 thousand that have a high degree of liquidity and were included in the category of repayable after one year. Liquid funds may be received either through the sale of the said securities or raising of a refinancing borrowing from the National Bank of Ukraine with the securities used as a collateral. As at 31 December 2020, the fair value of securities that may be considered as a cover for the cumulative liquidity gap in the category of repayable within one year amounted to UAH 12,719,301 thousand;
- ▶ Stable balances on current and other customer accounts determined based on Bank's own methods, which are based on statistical analysis of fluctuations in current customer account balances. As at 31 December 2020, the stable balances on current and other accounts were estimated to be equal to UAH 43,091,619 thousand. Based on the going concern assumption, actual maturity of the stable balances may be considered as undefined.

Thus, the negative liquidity gap that arose as at 31 December 2020 in the amount of UAH 35,392,245 thousand based on the estimated maturities of the above-mentioned financial instruments has changed to a positive liquidity gap and may be estimated in the amount of UAH 20,418,676 thousand.

31. Related party transactions

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability directly or indirectly through one or more intermediaries to control the other party or exercise significant influence over the party when making financial and operational decisions. Terms and conditions of transactions with related parties are established on a daily basis and may differ from the market terms.

*(in thousands of Hryvnias, unless otherwise indicated)***31. Related party transactions (continued)**

As at 31 December 2020, the Bank was 94.94% state-owned bank under the control of the Ministry of Finance of Ukraine (2019: 94.94%). Correspondingly transactions and balances with related parties comprise transactions with government, government-related entities (both directly and indirectly), key management personnel and entities, if any, that are controlled, jointly controlled, or significantly influenced by them.

A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by the government. Government refers to government agencies and similar bodies whether local, national or international.

Business entities related to public authorities – business entities that are controlled, are under the joint control or significant influence of public authorities.

Public authorities – public authorities, government agencies and similar public authorities – local, national or international.

In considering each possible related party relationship, attention is focused on the substance of such relationship and not merely its legal form. The balances and transactions with related parties at the end of the period and the relevant amounts of profit and loss for the period are as follows:

	31 December 2020			31 December 2019		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Assets						
Cash and cash equivalents	3,500,478	–	–	8,110,208	–	–
Current accounts with the National Bank of Ukraine	4,913,458	–	–	9,151,774	–	–
Current accounts and overnight placements with other credit institutions	116,309	–	–	57,902	–	–
Due from credit institutions	142	–	–	4,265	–	–
Loans to customers and finance leases, gross	13,901,802	3,602	23,003	12,709,211	660	19,274
Less: expected credit losses / allowance for impairment	(1,094,596)	(2)	(176)	(1,198,944)	(4)	(444)
Investments at fair value through other comprehensive income	50,336,550	–	–	23,201,673	–	–
Liabilities						
Due to credit institutions	1,429,020	10,214	–	1,181,916	2,123	–
Due to customers – deposits	16,455,587	417,925	45,701	4,209,084	88,062	53,494
Due to customers – current accounts	36,881,613	82,859	59,397	44,834,192	35,202	22,621
Commitments and guarantees issued	4,877,124	5,692	8,200	5,658,909	5,051	8,855

	31 December 2020			31 December 2019		
	State controlled entities	Other related parties	Key management personnel	State controlled entities	Other related parties	Key management personnel
Statement of profit or loss and other comprehensive income						
Interest income on loans to customers	916,636	154	1,855	2,390,792	114	1,643
Interest income on investments at fair value through other comprehensive income	3,507,176	–	–	2,781,858	–	–
Interest income on deposit certificates of the National Bank of Ukraine	1,120,416	–	–	726,308	–	–
Interest expense on amounts due to the National Bank of Ukraine	–	–	–	50,597	–	–
Interest expense on amounts due to credit institutions	44,502	–	–	15,271	1,456	–
Interest expense on amounts due to customers	2,583,938	33,935	2,074	2,522,675	17,078	3,145
Credit loss expense for loans to customers: (accruals)/reversals	104,348	3	268	(675,408)	(4)	(405)
Gains/(losses) on trading securities	–	–	–	11	–	–
Net gains on investments at fair value through other comprehensive income	135,761	–	–	65,771	–	–
Other operating expense	201,705	–	–	168,171	–	–

*(in thousands of Hryvnias, unless otherwise indicated)***31. Related party transactions (continued)**

Concentration risk is determined by the Bank as the risk of possible losses due to concentration of risk in specific instruments, operations and industries.

The Bank's activities relate to a significant scale of operations with state-owned companies resulting in concentration of credit and investment risks in relation to certain counterparties and groups of related counterparties and industries.

As at 31 December 2020, 53% of assets and 45% of liabilities were concentrated in operations with state-owned companies, the National Bank of Ukraine, state banks and government authorities (2019: 43% assets and 51% liabilities).

The Bank manages concentration risk in its loan and investment portfolios by setting limits for counterparties and groups of counterparties.

Remuneration to key management personnel comprises the following:

	31 December 2020	31 December 2019
Salaries and bonuses	175,540	114,161
Total remuneration to key management personnel	175,540	114,161

32. Capital adequacy

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulator, the National Bank of Ukraine, sets and monitors capital requirements for the Bank as a whole and monitors compliance with these requirements on the basis of reporting to national standards. The Bank as a whole and its individual banking operation are directly supervised by the local regulator.

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2020 and 2019 the minimum level required by the National Bank of Ukraine was 10%. The Bank complied with the statutory capital ratios during the periods ended 31 December 2020 and 2019.

The Bank analyses its activities to meet the minimum capital requirements, including the capital adequacy requirements calculated in accordance with the Basel Accord of 1988, as defined in the International Convergence: of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 31 December 2020 and 2019, the minimum level required by Basel I was 8% and the minimum Tier 1 capital adequacy ratio was 4%.

Analytical bases for calculation of capital adequacy according to the NBU requirements and requirements of Basel I are different, therefore are not comparable.

As at 31 December 2020 and 2019, the Bank's capital adequacy ratio was as follows:

	31 December 2020	31 December 2019
Base capital	8,314,311	7,024,638
Supplementary capital	93,325	196,656
Deductible	6,660	6,660
Regulatory Capital	8,400,976	7,214,634
N2 ratio	14.31%	15.23%
N3 ratio	14.16%	14.83%

*(in thousands of Hryvnias, unless otherwise indicated)***32. Capital adequacy (continued)**

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of Basel I as at 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Tier 1 capital	8,963,581	8,525,802
Tier 2 capital	(414,750)	(271,318)
Total capital	8,548,831	8,254,484
Risk weighted assets	73,057,413	59,889,856
Tier 1 capital ratio	12.27%	14.24%
Total capital ratio	11.70%	13.78%

As at 31 December 2020 and 2019 the Bank was in compliance with the capital ratio calculated in accordance with the Basel Accord.

33. Changes in liabilities arising from financing activities

	<i>Due to the National Bank of Ukraine</i>	<i>Due to credit institutions (long-term)</i>	<i>Lease liabilities</i>	<i>Total</i>
Carrying amount at 1 January 2019	4,303,770	1,698,623	X	6,002,393
Additions	-	1,624,312	211,271	1,835,583
Repayment	(4,304,156)	(508,228)	(73,558)	(4,885,942)
Exchange differences	-	(355,106)	-	(355,106)
Other	386	(6,435)	(5,966)	(12,015)
Carrying amount at 31 December 2019	-	2,453,166	131,747	2,584,913
Additions	-	1,402,766	61,580	1,464,346
Repayment	-	(1,394,031)	(62,858)	(1,456,889)
Exchange differences	-	703,854	-	703,854
Other	-	(1,234)	(4,321)	(5,555)
Carrying amount at 31 December 2020	-	3,164,521	126,148	3,290,669

34. Subsequent events

From 8 January to 24 January 2020, increased quarantine restrictions were applied in Ukraine. At the end of this period, the operation of all entities and institutions was resumed.

Adaptive quarantine in Ukraine began on 24 February 2021. According to it terms, the regions were divided into "green", "yellow", "orange" and "red" zones, where "green" – with the lowest level of virus spread, and "red" – with the highest. Every week, the Ministry of Health of Ukraine updated the list of regions taking into account the epidemiological situation.

In January 2021, the Bank and the International Finance Corporation (IFC) signed a loan agreement under which the Bank will receive a loan of EUR 30 million with the right of IFC to convert it to the share capital of the Bank. The loan agreement provides for a loan for a period of 5 years, IFC has the opportunity to convert the loan to the share capital of the Bank of up to 20%.

After the reporting date, the Board of the National Bank of Ukraine on 5 March 2021 decided to increase the key policy rate from 6.0% per annum to 6.5% per annum.