JSC “PRAVEX BANK”

Annual report for the year 2021

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MANAGEMENT REPORT

JSC "PRAVEX BANK"

as at 31 December 2021 and for the year then ended

Information about the Bank

JSC “PRAVEX BANK” (hereinafter - the Bank) - a universal financial organization that provides a full range of banking services throughout Ukraine. Thanks to a well-developed network, JSC “PRAVEX BANK” is represented in all corners of our country. Combined with a flawless 28-year history of success, this has allowed the Bank to become one of Ukraine's most renowned banking brands.

2008 was a landmark year for PRAVEX BANK JSC - at the end of June the agreement on the sale of 100% of the Bank's shares to one of the leading banking groups in Europe - Intesa Sanpaolo Group - was completed. PRAVEX BANK is part of the Intesa Sanpaolo banking group, one of the leading banking groups in the Eurozone and a leader in all areas of Italian business.

The Bank is constantly improving its work, raising the standards of banking services and becoming better for its customers and partners. Thanks to new opportunities and higher standards of risk management and technology, we can make a powerful breakthrough on the basis of our base. Reliability and stability, the right development strategy and high standards of customer service allow the Bank to look confidently into the future and implement large-scale plans for dynamic development of the Bank.

The Bank pursues a strategy of growth and aims to create a lasting and strong foundation of economic, financial, social, social and environmental nature, which should be built on the trust of all our partners and based on their own values.

The main purpose of the Bank's activity is to obtain the optimal amount of profit from the use of own and borrowed funds to ensure the payment of dividends to the Bank's shareholders and the development of banking.

During 2021, the Bank operated in a slow recovery of the world economy and new waves of the COVID-19 pandemic, accompanied by increasing quarantine restrictions in most countries, rapid growth of energy prices on world markets, rising Hryvnia devaluation, restrained implementation of systemically important for banking reform system, escalating the conflict with Russia ahead of negotiations between US Presidents Joseph Biden and Russian President Vladimir Putin in early December, which significantly affected the mood of investors.

Taking into account the above factors, the Bank was forced to make efforts to maintain the status of a reliable and solvent bank, and took the following measures:

- focus on liquidity management;
- improving the efficiency of the Bank's work and improving financial results;
- intensification of corporate and retail businesses, both in lending and in attracting customer funds;
- active work in the direction of digitalization;

- strengthening the Bank's competitive position in both the corporate and retail segments, including by attracting new customers and improving their level of service.

Within the framework of the Bank's priority areas, the following measures were taken:

- active lending to legal entities, focused on clients who have a stable financial position and a high reputation in the market;
- lending to the retail segment with strict credit risk control;
- placement of free funds in certificates of deposit of the National Bank of Ukraine (hereinafter - NBU) and IGLBs of the Ministry of Finance of Ukraine (hereinafter - IFI) in order to avoid liquidity risks and at the same time provide risk-free interest income;
- placement of temporarily free funds in foreign currency in interbank loans and conclusion of swap agreements;
- signing an agreement with the European Investment Bank to expand access to finance for small and medium-sized enterprises that have been adversely affected by COVID-19;
- joining the state program “Affordable Loans 5-7-9”, which aims to facilitate access of small and medium-sized businesses to bank lending to overcome the effects of the coronary crisis and enterprise development;
- joining the program “Affordable Mortgage 7%”;
- improving and updating its banking products in accordance with the needs of customers and the market, including the transfer of banking services to on-line customer service;
- signing a Memorandum on Joint Action on Anti-Corruption in Ukraine, initiated by the UN Global Network in Ukraine, which is to create a transparent and corruption-free environment that promotes economic, business and social development, as well as ensuring absolute transparency in relations with the bank's clients;
- revision of tariffs for some banking products;
- active work to reduce overdue loans by restructuring customer debt;
- work in the direction of sale / sale of mortgaged property;
- strict control over operating expenses and capital investments.

The main component of the financial mechanism used by the Bank in its activities is strategic planning. The purpose of developing the strategy is to ensure efficient and competitive operation of the bank in the financial market.

Within the framework of its strategy, the Bank has clearly defined the basic concept of the bank's development, which is the definition of the main accents, general goals and priorities, key directions in the bank's activities, in particular:

- development of corporate and retail lending with a selective approach to the client with an emphasis on profitability and risk profile;
- providing financing for growing lending by increasing customer deposits in the corporate and retail segments, and supranational funds;
- increase the profitability of products and the development of transactional business;

- improving / improving the efficiency of the retail network in order to have a more efficient cost structure and, at the same time, to be able to focus on working with wealthy and middle-class customers;
- strict control over staff costs and administrative costs, as well as implementation of cost optimization initiatives.

Management in a market economy requires constant adjustment of the Bank's objectives due to changes in the external environment and macroeconomic conditions. Therefore, in addition to strategic planning, which allows to predict the objectives, scope and evaluate the results of activities in terms of sources and costs, the Bank uses budget planning for next year and operational (quarterly) planning of the bank for the current year.

The instrument of the financial mechanism is also an analysis of the Bank's ongoing activities. This allows us to assess the Bank's performance as a whole and separately in terms of its activities based on a comparison of actual results with forecasts and with the results of previous years.

The Bank operates in Ukraine. The political and economic situation in Ukraine has been unstable in recent years, with the peculiarities of an emerging market. As a result, doing business in a country involves risks that are not typical of other countries.

At the end of 2021, Ukraine's economy was significantly affected by the escalation of the conflict with Russia, a sharp rise in energy prices and the spread of a new strain of coronavirus. Together, these factors have worsened expectations of economic development and led to a deterioration of the investment climate in Ukraine. Therefore, the conditions for attracting financing for the public and private sectors in foreign markets have deteriorated.

During the reporting year, Ukraine's economy recovered, but more slowly than expected, due to insufficient investment, rising energy prices, and deteriorating epidemics in the country as a result of new strains, despite active vaccination. At the same time, economic growth was supported by stable consumer demand, which was ensured by a significant growth rate of household income. High consumer spending and global pro-inflationary factors, such as rising commodity prices, have led to several times higher consumer prices. The central banks of most emerging economies responded to these changes, and the NBU raised the discount rate several times during the reporting year (from 6.0% to 9.0%).

Favorable price conditions, high domestic demand and a general decline in interest rates have created significant business demand for loans, and since the second quarter, the growth of loan portfolios in the corporate and mortgage segments has accelerated significantly. The growth rate of consumer loans is returning to pre-crisis levels.

Since the beginning of the reporting year, the banking sector has been actively receiving Hryvnia inflows into banks' deposit accounts, mainly due to an increase in demand deposits, which has ensured a sufficient level of funding for further lending.

In general, the cost of financing banks remains low given the significant share of free resources attracted to current accounts. Lending rates fell mostly during the year, primarily on loans to small and medium-sized businesses and mortgages. Therefore, the net interest margin of banks decreased moderately. However, the increase in the loan portfolio contributed to the growth of net interest income, and significant volumes of transactional business - to increase net commission income. Together with low reserve costs and restrained administrative costs, this ensured record profitability for the banking sector. Thus, the net profit of the system in November amounted to UAH 65.7 billion, and increased by 52% compared to last year.

During the reporting year, the yield on long-term IGLBs increased, which was due to the significant needs of the Government of Ukraine in financing the budget deficit and raising inflation expectations.

In December 2021, the foreign exchange market was mostly balanced. This was facilitated by an increase in export earnings, including agricultural enterprises, and a net supply of cash foreign currency. However, the persistence of geopolitical tensions has negatively affected the mood of market participants. During the month, the National Bank went out with the sale and purchase of foreign currency to smooth out excessive fluctuations in the market.

In 2020, the International Monetary Fund (hereinafter - the IMF) reached an agreement with the Ukrainian Government on a new three-year program of expanded financing of the EFF for 4 billion special drawing rights (SDR) - about $ 5.5 billion. In June 2020, Ukraine received the first tranche of $ 2.1 billion, which was spent on overcoming the effects of the coronavirus pandemic, as well as ensuring macro-financial stability. In November 2021, Ukraine received the second tranche of $ 700 million to overcome the economic crisis and the health crisis caused by the pandemic and, at the same time, the IMF extended the program until June 2022.

During the 3rd quarter of 2021, the international rating agency Fitch Ratings confirmed the long-term rating of the default of the issuer of Ukraine in foreign currency at “B” and revised the forecast from stable to positive. Fitch Ratings raised its forecast as a result of the relative resilience of Ukraine's financial creditworthiness to the shock caused by the coronavirus pandemic and the expected reduction in public debt to 57% in 2021 due to budget overruns and the recovery of the Ukrainian economy.

Although management believes that it is taking appropriate measures to support the Bank's stability in the current circumstances, such as the worsening global economic crisis and pandemic, the volatility of the national currency and its subsequent devaluation may adversely affect performance and financial performance, the condition of the Bank, the nature and consequences of which cannot be determined at this time.

According to the results of operations in 2021, the Bank suffered a loss of UAH 266,249 thousand, which is 46% more than in 2020 (UAH 182,803 thousand). The Bank suffered losses mainly due to higher provisioning costs, including unforeseen risks and litigation costs, and increased administrative costs due to business development, rising inflation, and further devaluation of the Hryvnia, which was partially offset by higher operating margins.

The increase in operating margin was due to a significant increase in the loan portfolio, while profitability continued to decline, due to the NBU's policy on discount rates and market conditions.

The total assets of the Bank in 2021 compared to 2020 increased by 23% and amounted to UAH 9,412 million. This increase was due to an increase in borrowed funds from both individuals and legal clients.

In terms of balance sheet, the Bank showed the following results:

- doubling the loan portfolio of clients was achieved through active lending to both the retail segment, namely the mortgage and corporate segments due to attracting new customers and improving cooperation with existing ones;
- increase in the volume of clients' deposit portfolio due to the need to attract resources to ensure the development of lending;
- growth of the securities portfolio as a source of diversification of liquidity risks.

Regarding non-financial indicators of the Bank's activity, it should be noted that during the reporting year the number of working ATMs decreased to 101, at the same time, the Bank actively increased the number of payment cards to 61 thousand.

In general, in 2021 the results of the Bank's activities correlate with the goals of the Bank's management and were achieved in the reporting year at the level of operating income.

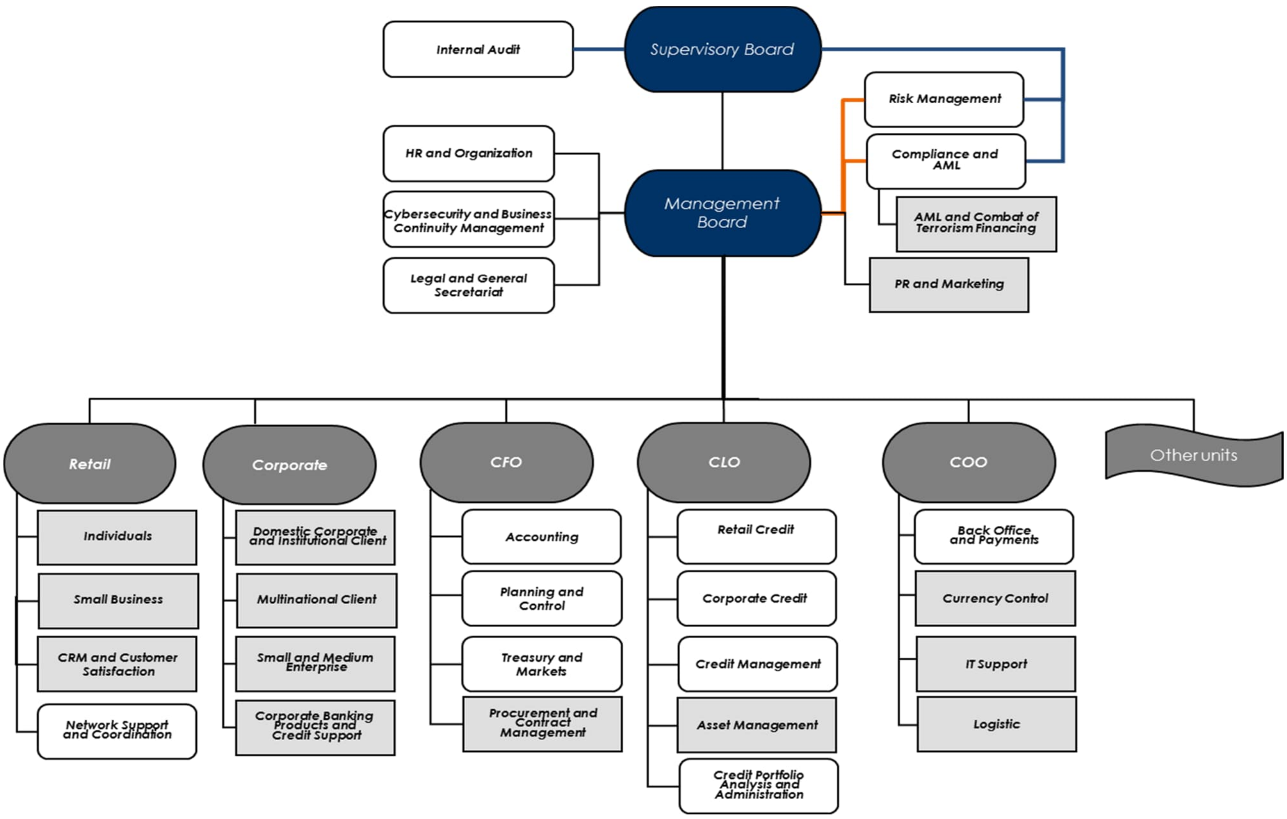
In general, the Bank has implemented a strategy to maintain sufficient liquidity and standards.

The Bank intends to continue to implement the Bank's agreed strategy next year and in the long run.

The key financial and non-financial resources to achieve the Bank's objectives are authorized capital, cash flows, human resources, intellectual capital, and technological resources.

The structure of the Bank as of December 31, 2021 includes 45 universal branches located in Kyiv and the largest cities of Ukraine. The largest concentration is in Kyiv.

Organizational structure of the Bank:



The Bank operates its business and renders services in accordance with the banking lisense (see the list of licenses issued to the Bank below):

- Banking license No. 7 dated 18 April 2018;
- National Securities and Stock Market Commission (NSSMC) Resolution No. 595 dated 10 August 2018 on the issue of the license to conduct professional activity on the stock market in the area of securities trading (dealing activity). The Bank has the right to conduct banking transactions under Section III of the Articles of Association;
- National Securities and Stock Market Commission (NSSMC) Resolution No. 583 dated 28 August 2018 on the issue of the license to conduct professional activity on the stock market in the area of securities trading (brokerage activity);
- National Securities and Stock Market Commission (NSSMC) License series AE No. 286534 to conduct professional activity on the stock market – depositary activity of the depositary institution – issued on 8 October 2013. The license is valid from 12 October 2013 for an indefinite period.

The Bank has the right to carry out the following banking operations:

- acceptance of deposits from legal entities and individuals;
- opening and maintaining current accounts of clients and correspondent banks, including the transfer of funds from these accounts using payment instruments and crediting funds to them;
- placement of borrowed funds on its own behalf, on its own terms.

During 2021, the Bank was included in the list of authorized banks of Ukraine, through which payments of pensions, cash benefits and salaries to employees of budgetary institutions can be made.

The Bank has favorable account maintenance conditions and a simple cooperation mechanism. The bank, concluding a relevant agreement with the organization, opens card accounts and issues cards to all employees. On the day of salary payment, the organization credits the amount of salary to the transit account of the Bank. Then the Bank transfers the salary to the card accounts of the organization's employees.

The bank plans to:

- development of management and strengthening of presence in the corporate segment;
- new and innovative solutions in products for corporate clients (trade finance, international payments, etc.);
- use of the best practices of the ISP group and international presence, development of trade finance products through a wide corporate network and ratings of the Intesa Sanpaolo Group;
- focusing on the middle class of retail customers;
- specialized products for different categories of customers that meet their needs;
- participation in government lending programs for individuals and small and medium-sized businesses;
- The Bank continues to implement the approved strategy for which the course of development of the universal bank has been chosen.

In the field of corporate business, the Bank plans to significantly expand its market presence. The following actions are planned for this purpose:

- increase in the maximum possible amount of financing per client after the Bank's recapitalization;
- increase in the number of first-class large corporate clients in the portfolio;
- attracting institutional clients and financial institutions that are willing to cooperate with the Bank on deposits due to membership in the Intesa Sanpaolo group;
- expanding cooperation with international companies;
- expanding work with medium and small enterprises, including through the provision of special lending conditions through government support programs, such as “5-7-9”;
- start working with international institutions in the field of financing trade operations and risk-sharing agreements;
- participation in consortia / club agreements, financing agreements with state enterprises, institutions and authorities;
- development and introduction of new products for liquidity management, documentary financing, e-banking, currency risk hedging;
- development of simplified credit products for small and medium business clients.

The Bank is constantly working to improve products and service them to customers. Taking into account the peculiarities of the development of the banking sector, during the reporting year business applications and programs were developed and implemented or are at the stage of launch, such as:

For retail business:

- Internet banking for legal entities (updated);
- Internet banking for individuals (updated);
- Mobile application;
- Google Pay and Apple Pay.

The Bank has joined the BankID system of the National Bank of Ukraine. The BankID system is designed for secure access of users to government, financial, commercial and other services that can be provided remotely (online) and require identification.

For Corporate Business:

- lending to small and medium-sized businesses under the program “5-7-9” with partial compensation of interest rates by the state;
- products of trade finance for legal entities (discounting and confirmation of export letters of credit), at the launch stage;
- cash management products (Cash pooling or Automatic concentration of funds on a specific Master account, which allows you to combine all the company's funds in one account and quickly connect new accounts);
- remote opening of a deposit through a client-bank with the help of a qualified electronic signature.

The Bank treats its customers responsibly, maintains a constant dialogue with them and maintains excellent business relationships. Attentive attitude to customer requirements or complaints allows:

- eliminate the causes of dissatisfaction and leave a good relationship;
- complaints and requirements can serve as an indicator of the level of service, based on which you can learn how to improve the proposed products and commercial processes, improve the characteristics of specific goods / services;
- Complaints and claims can be an element that can be used to assess and manage operational and reputational risks, in particular the risks of non-compliance and control.

Control over the review of complaints is entrusted to the Deputy Chairman of the Board of JSC “PRAVEX BANK” Semyon Babaiyev.

During 2021, 46 complaints were received and satisfied, most of them concerning the unauthorized write-off of funds from current and card accounts, restructuring of foreign currency loans, customer dissatisfaction with the work of branches and the attitude of branch staff.

In managing customer complaints, the Bank uses an approach based on the principles of transparency and fairness, which is aimed at substantive dispute resolution in accordance with the terms set by the policy.

Complaints management, first, involves checking the facts reported by the client and the behavior of employees who dealt with the client's issues; assessment and decisions - based on internal and external regulations, contractual provisions and standards specified in the Code of Ethics of Intesa Sanpaolo Group.

Regulatory capital is one of the most important indicators of the Bank's activity, the main purpose of which is to cover the negative consequences of various risks that the Bank assumes in the course of its activities, and to ensure deposit protection, financial stability and stable operation of banks.

In order to determine the real amount of regulatory capital, taking into account the risks in its activities, the Bank constantly assesses the quality of active banking operations, as well as determines the amount of credit risk in accordance with the requirements of the NBU.

The Bank's capital is formed for the purpose of:

- highly profitable use of own funds;
- covering all possible types of risks assumed by the Bank;
- optimization of the structure of assets and liabilities by terms of raising and placing funds.
- As of December 31, 2021, in accordance with the requirements of the NBU, banks must keep the capital adequacy ratio (H2) at 10% and the fixed capital adequacy ratio (H3) at 7% in relation to risk-weighted assets , calculated in accordance with the resolutions of the NBU;
- As at 31 December 2021, the Bank complied with the regulatory capital adequacy ratio (H2) with a rate of 19.82% (31 December 2020: 35.65%) and the fixed capital adequacy ratio (H3) with a rate of 18.82%. (December 31, 2020: 34.11%);
- The amount of regulatory capital as of December 31, 2021 is UAH 1,135,866 thousand (for comparison, in 2020 it amounted to UAH 1,353,479 thousand).

The Bank's resources are formed at the expense of:

- the Bank's own funds;
- funds of the Bank's clients (legal entities and individuals), which are kept on accounts (deposits) with the Bank, as well as attracted for a definite term and for a term on demand;
- loans of the National Bank of Ukraine and other banks.

The Bank maintains its readiness to meet its obligations in a timely and complete manner by adjusting the structure of its balance sheet.

In order to make appropriate management decisions, the Bank has implemented an integrated approach to asset and liability management, which is based on combining into a single integrated system of its various parts (methods, ratios, etc.) to increase profits at an acceptable level of risk. The integrated approach is used by the relevant structural units of the Bank in performing the tasks and functions assigned to them.

Stages of the Bank's assets and liabilities management process carried out by the relevant structural divisions of the Bank:

- ✓ strategic management of the Bank's resources (it is necessary to focus on the market assessment of the Bank's equity). Performance is measured in the “return on profitability” risk using indicators such as the Bank's equity, liabilities and assets ratio, competitive return on assets (ROA) and return on equity (ROE);
- ✓ tactical management of the resource base (making management decisions on individual components of the resource base, each of which is considered in the

coordinates “profitability - risk” in isolation, without regard to relationships with other components. Management decisions should be aimed at finding the optimal structure and composition each component of the resource base, provided that they are formed on the principle of maximizing profitability and limiting acceptable risk);
- ✓ operational management of financial flows (using the methods of an integrated approach to the management of assets and liabilities of the Bank). Such operational management is primarily related to the day-to-day management of bank balance sheet items. To this end, the relevant department prepares a daily report on the structure of assets and liabilities of the Bank in terms of major currencies (Hryvnia, USD, EURO). A special organizational form of the Bank's management, the Assets and Liabilities Management Committee, organizes the implementation and implementation of the integrated approach method in the Bank's assets and liabilities management.

Liquidity management plays a very important role in the Bank's management process, as it ensures the unconditional fulfillment of all the Bank's obligations to customers regarding timely settlements and refunds. In the liquidity management process, the Bank aims to comply with the NBU's regulatory liquidity requirements, prevent liquidity shortages and excess reserves, maintain the optimal ratio between liquidity and profitability of active operations, and minimize the Bank's liquidity risk. In liquidity management, the Bank assesses both external and internal factors. Including:
- the current state of the economic and political situation in Ukraine and their forecasting;
- state and stability of the national banking system, monetary and foreign exchange markets, as well as regulatory requirements for the regulation of banking activities;
- availability of international currency and capital markets;
- quality of the Bank's assets and liabilities.

Labor relations between employees and the Bank are regulated by the current labor legislation of Ukraine.

The Bank's employees are subject to social insurance and have social guarantees in accordance with the current legislation of Ukraine.

The Bank has the right to involve Ukrainian and foreign experts in accordance with the current legislation of Ukraine.

Intesa Sanpaolo Group and the Bank, as part of the Intesa Sanpaolo Group, have decided to conclude their own Code of Ethics, structured as a true “charter of relations” of the Bank with all its partners. The Code of Ethics explains the values that Intesa Sanpaolo Group believes in and wants to adhere to, sets out the principles of conduct that arise from these values in the context of each partner's relationship, and sets appropriate standards that every Bank representative must adhere to in order to be trusted all partners.

The values declared in the Code of Ethics are based on the corporate culture and past of the Intesa Sanpaolo Group, which are, on the one hand, the “glasses” through which to observe and understand different situations and, on the other hand, the goal to which we should go, the purpose of the process that will characterize our activities in the coming years.

Based on the basic principles of the Code of Conduct of the Intesa Sanpaolo Group, the Bank has developed and operates the Internal Code of Conduct of JSC “PRAVEX BANK”.

The Internal Code of Conduct of PRAVEX BANK JSC defines the ethics of internal relations in the team, relations with clients and the attitude of everyone to their work to achieve a common goal. Strict adherence to the Internal Code of Conduct of PRAVEX BANK JSC gives the team the organizational and ideological unity necessary for development. This is a system of principles that is doing business in our company.

The bank works to provide excellent banking and financial services to our customers.

Basic values and principles of the Bank:

- Honesty. The Bank pursues its goal honestly, consistently and responsibly, with full and complete respect for the existing rules, professional ethics and the spirit of the signed agreements;
- Perfection. The Bank aims to continuously improve its work, look far ahead, anticipate possible difficulties and take care of the broad creativity that is the beginning of innovation, as well as properly assess the end result;
- Transparency. In the actions of the Bank, during advertising and when signing agreements, much attention is paid to transparency, so that all our partners can always make free choices and make responsible decisions;
- Respect for difference. The Bank wants to combine globality with experience in specific countries, thanks to which the Bank will be able to think big, without losing attention to individuals;
- Equality. The Bank strives to eliminate any discrimination from our conduct and to pay attention to differences in gender, age, race, religion, political and social affiliation, sexual orientation and self-identification, language or various types of incapacity;
- The value of the person. The value of the individual as such governs all the Bank's actions: our ability to listen and engage in dialogue is a means of continually improving our cooperation with all our partners;
- Responsible use of resources. The Bank strives to be careful about the use of all resources, supporting measures to optimize such use and avoid losses or waste, and giving preference to long-term solutions.

Socially responsible investments. The Bank believes that investments should increasingly take into account social and environmental criteria, as well as the criteria of good governance, which will promote balanced and substantial development.

Assessment of socio-environmental risks. The Bank believes that investment decisions and credit policies should also take into account socio-environmental risks, according to the principle that profitable economic activity is acceptable only if it is not harmful to society or the environment, therefore:

- The Bank does not consider applications for financing economic projects that may lead to direct or even indirect violations of fundamental human rights, interfere with human development, or adversely affect public health and the environment;
- The Bank promotes peaceful coexistence by refusing to provide financial support to activities that may threaten it;
- The Bank prefers projects of high social and environmental importance.

In its activities, the Bank adheres to the ESG principles, which has a positive impact on maintaining the ecological balance, contributes to the maintenance and development of conservation of natural resources and social climate in all its areas and manifestations. In addition, the Bank's declaration and dissemination of such principles in external communications also contributes to the dissemination and implementation of ESG principles in society. This requires improving the efficiency of the Bank's management system focused on the principles of sustainable development, taking into account all the requirements and rules of the management system in the banking group Intesa Sanpaolo, which in recent years is actively working to implement ESG principles worldwide. An important decision was the introduction of an effective environmental management system in the Bank based on the principles of the green economy.

As of December 31, 2021, the Bank had 780 employees. The Bank recognizes employees as a valuable resource and attracts leading specialists in the Ukrainian market.

The Bank hopes to provide employees with equal opportunities in assessment, motivation and career growth.

The Bank asks its employees to promote the responsible use of all the resources with which they perform their duties.

The Bank strives to develop its intellectual capital, investing in training, development and motivation of employees. The main carrier of intellectual capital is man. Intellectual capital management has great opportunities to become a successful strategy in the future.

The Bank believes that internal communication is the establishment of an effective relationship between employees and management. Internal communications are aimed at solving strategic tasks, strengthening employee loyalty, forming uniform standards of conduct in accordance with the Code of Ethics. Through internal communications, employees have a deeper understanding of the Bank's corporate culture, goals and values. Internal communications connect all departments together, through all levels, forming a sense of community and effective team.

The Bank believes that respect for the person and personal dignity of each employee is the foundation for the development of a working atmosphere permeated with mutual trust and honesty and enriched by the personal contribution of each employee.

When hiring, the documents provided by the candidate are checked, his professional level, work experience, professional competence, as well as business reputation for previous jobs and reviews of former colleagues are studied. The final decision on filling a vacancy is made based on the results of inspections and objective examination of the documents of several applicants by conducting a comparative assessment based on skills, professionalism and experience in the role in which the recruitment is carried out.

In the process, the Bank's employees have the opportunity to improve their general and professional level by participating in trainings, seminars, training events and exchange of experience within the Group.

If an employee of the Bank, regardless of his position, violates the established internal labor regulations, the requirements of internal regulations of the Bank, regulations and bylaws of public authorities (including corruption legislation), the relevant official investigation is conducted, the conclusions of which, together with other materials on the violation, are considered by the Disciplinary Commission of the Bank, which decides on the application of disciplinary measures or influence to the perpetrator.

If the violation contains signs of a criminal act, the Commission has the right to decide to apply to national law enforcement agencies with information about the violation in order to bring violators to justice in the manner prescribed by current legislation of Ukraine.

The Bank and its employees, regardless of their positions, are prohibited from engaging or using counterparties and other persons to carry out any actions that contradict the principles and requirements of the Policy or the norms of anti-corruption legislation.

The final decision is made taking into account the conclusions of the units involved in the inspection and assessment of the level of all identified risks.

Interaction with state and national law enforcement agencies:

The Bank's employees should refrain from any illegal or unethical conduct when interacting with government officials who carry out control or investigative or other investigative or other measures provided to them by law.

If necessary, the Bank cooperates with national law enforcement agencies by assisting their authorized representatives in conducting inspections to prevent and combat corruption, measures to stop and investigate corruption crimes.

The Bank, as part of the Intesa Sanpaolo Group (the “Group”), seeks to combat corruption in all its forms and manifestations, where corruption relates to the offer or acceptance, directly or indirectly, of money or other benefits that may affect the recipient, encouraging or omitting a function / activity. To achieve these goals, the Bank has developed a Policy on Prevention and Counteraction to Corruption, which was approved by the decision of the Supervisory Board of the Bank dated 12.12.2017 №10_17.24.1 (in this section - the Policy).

The policy is designed to confirm the commitment of the Bank, its governing bodies and employees to high ethical standards and principles of open and honest business, as well as the banking institution's commitment to improving corporate culture, compliance with international best corporate governance practices and maintaining the Bank's business reputation.

The main goals and objectives of the Policy are:
- creation of conditions in the Bank for successful counteraction to corruption;
- definition and implementation of mandatory anti-corruption procedures in the Bank;
- ensuring compliance of the Bank's activities with the requirements of Ukrainian and international anti-corruption legislation, as well as standards of business ethics;
- regulation of the Bank's standards in the field of anti-corruption activities;
- forming in the Bank's management and employees, as well as in persons interacting with the Bank, an equal understanding of the Bank's position on non-acceptance of corruption in all its forms and manifestations;
- protection of the Bank's shareholders and clients from financial losses and loss of reputation in case of corruption;
- minimizing the risk of involving the Bank, its managers and employees (regardless of their position) in corrupt activities;
- assistance in ensuring the transparency of the Bank's financial and economic activities as a whole;
- introduction of advanced standards of corporate governance.

Basic principles of the Bank's anti-corruption activities:

The Bank's commitment to the requirements of the law and high ethical standards in business relations is intended to help strengthen the Bank's reputation among partners, counterparties, customers and other persons who are in contact with the Bank in the course of its activities. The Bank's refusal to participate in corruption agreements and the prevention of corruption encourage conscientious behavior of employees both in relations within the Bank and externally (with partners, contractors, customers and others).

The Bank cooperates on anti-corruption issues with state and law enforcement agencies, takes appropriate measures to counter attempts to legalize proceeds from crime.

The principle of zero tolerance (zero tolerance for corruption): the key role in forming a culture of intolerance to corruption and in creating an internal banking system to prevent and combat corruption is assigned to the Bank's management. The Bank's shareholders, management and officials form an ethical standard of uncompromising attitude to all forms and manifestations of corruption at all levels, setting an exemplary example for communication and business relations.

The implementation of anti-corruption procedures includes informing all employees about the Bank's position and its attitude to anti-corruption issues. The Bank promotes the level of anti-corruption culture by informing employees in order to maintain their awareness of anti-corruption legislation and anti-corruption policy of the Bank, mastering the methods and techniques of applying anti-corruption policy in practice.

Areas of high risk and adequacy of anti-corruption procedures.

The Bank takes all necessary measures to develop, improve and implement a set of measures to reduce the likelihood of involvement of the Bank, its managers and employees in corrupt activities.

Correspondence and inevitability of punishment:

The Bank requires the Bank's shareholders, management, officials and employees to strictly comply with the requirements of the Anti-Corruption Policy, State and International Policy.

The shareholders of the Bank, its management and employees, regardless of their position, length of service and other conditions, in case of committing corruption offenses, bear the responsibility established by law and internal documents.

Business openness

The Bank proves its Policy (declarative part of the Policy) through the media and the Internet, in order to inform individuals and legal entities, including counterparties, partners, etc., on the anti-corruption standards of doing business introduced in the Bank.

The Bank welcomes and encourages compliance with anti-corruption principles and requirements by all counterparties, partners, customers and others.

The Bank responds to any reports and inquiries about signs of corruption that come from all interested and concerned persons to the call center or are sent to the Bank's e-mail address: bank@pravex.ua.

During 2021, no control measures were applied to the Bank by the supervisory authorities.

In the reporting year, the Bank formed a reserve (estimated liability) in a civil lawsuit against the Bank in full against the Bank by a court of first instance: 1,780,000 US dollars, 1,000,000 euros and 230,000 Swiss francs, which in Hryvnia equivalent is 86,033 thousand UAH.

The individual filed a civil lawsuit against the Bank, alleging that the Bank had violated its physical security obligations under the safe deposit box lease agreement. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Relations with related parties and shareholders

Relations with the Bank’s related parties are regulated by the Bank in compliance with the applicable laws of Ukraine, regulations of the National Bank of Ukraine, requirements of Resolution No. 64 of the Board of the National Bank of Ukraine dated 11 June 2018 (“On Approval of the Regulations on the Organisation of the Risk Management System in Ukrainian Banks and Banking Groups”), Regulation on Identification of the Bank’s Related Parties, approved by Resolution No. 315 of the Board of the National Bank of Ukraine dated 12 May 2015, Articles of Association and internal documents of the Bank.

The principles and rules for identifying individuals and legal entities as related to the Bank, the Bank's related-party transactions, procedures for assessing, proposing and taking decisions in respect of these transactions, applicable reporting requirements, obligations and responsibilities of the Bank's units involved in the process are regulated by Regulation of JSC "PRAVEX BANK" on Related-party Transactions approved by Resolution of the Supervisory Board No. 10_17.24.3 dated 21 May 2019, and brought to attention by Resolution of the Chairman of the Management Board No. 181 dated 29 May 2019.

Related-party transactions are conducted in strict compliance with the applicable law of Ukraine.

Relations with the Bank's Shareholder are regulated in compliance with the applicable laws of Ukraine, including, but not limited to, the Laws of Ukraine "On Joint Stock Companies", "On Banks and Banking Activities", "On capital markets and organized commodity markets", as well as by the Bank's Articles of Association, Regulation on the Supervisory Board of the Bank, Regulation on the Audit Committee of the Bank, Regulation on the Management Board of the Bank.

The Shareholders of the Bank collectively and each separately shall protect the interests of the Bank and its depositors, actively exercising their powers at the General Meeting of Shareholders – the supreme governing body of the Bank. Shareholders shall take all necessary measures to ensure the following:

- the Bank's ownership structure shall not impede corporate governance at the relevant level;
- only competent and reliable persons who can contribute their experience for the benefit of the Bank have been elected as members of the Supervisory Board of the Bank;
- the Supervisory Board of the Bank shall report and be responsible for the Bank's activity and financial position.

When taking their own decisions, shareholders should take into account, first of all, the interests of the Bank's persons concerned, namely investors, depositors, creditors, Bank employees and other persons concerned.

Related-party transactions conducted during 2021 had no material effect on the Bank's financial results.

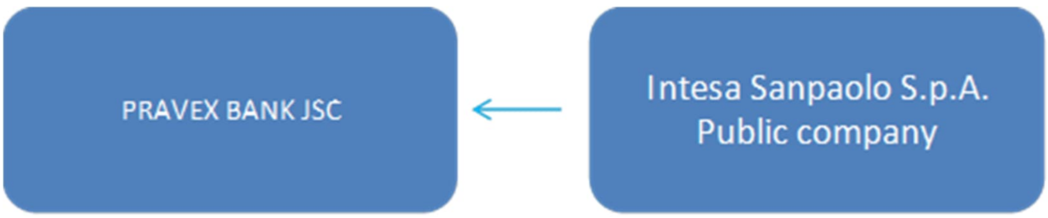
Corporate governance report

Organisation of corporate governance

JSC "PRAVEX BANK" is a part of Intesa Sanpaolo Banking Group.

Intesa Sanpaolo S.p.A. is the owner and sole shareholder of the Bank.

The Bank's ownership structure as at 31 December 2021 is presented in the figure below:



The Bank's ownership structure complies with the applicable law of Ukraine.

In 2021, no changes took place in the list of majority shareholders. The Bank has a status of a foreign-owned bank.

The Bank is a universal bank, i.e. it can render any services to the retail sector (individuals) and corporate sector (legal entities), whether residents or non-residents, in accordance with the Law of Ukraine "On Banks and Banking Activities" and based on the licenses and permits obtained from the National Bank of Ukraine, the National Securities and Stock Market Commission.

The Bank is well aware of the impact that an exemplary corporate behaviour has on the investor's attitude towards the Ukrainian investment climate and is seeking to transform the Bank into a truly public company.

Furthermore, the Bank understands that effective corporate governance is essential to achieving its objectives and is constantly updating its corporate governance structure based on past experience, legislative changes, national and international best practices, corporate governance principles and guidelines.

The Bank considers that the constant increase in the level of corporate governance will allow to solve the issue of problem loans and improve the confidence of potential counterparties, such as depositors, borrowers and clients, which is extremely important in the current period of development of the Ukrainian banking system. The Bank improves corporate governance by ensuring effective supervision by the Supervisory Board of the Bank, strong internal controls, compliance with standards and ensuring the transparency of submitted reporting, full disclosure of the ownership structure, improving the quality of risk assessment, etc., which contributes to expanding the prospects for attracting resources on domestic and foreign financial markets. Further development of corporate governance in the Bank will depend on the influence of the NBU policy in the corporate relations and the capital market area.

Corporate governance is organized in accordance with the Corporate Governance Principles ("the Code") of PJSC CB "PRAVEX BANK" ("the Principles") approved by Shareholder Resolution No. 5/2016 dated 13 December 2016 and published on the Bank's official website at https://www.pravex.com.ua/o-banke/pro-nas/ustanovchi-dokumenti .

The Bank does not apply in its activity the codes of corporate governance of the stock exchange, association of legal entities or other corporate governance code, as well as it does not have corporate governance practices beyond the statutory requirements. The Bank complies with the legislative requirements in full.

There were no deviations from the standard set by the Corporate Governance Code during the reporting period.

In order to implement the best corporate governance practices, build an effective internal control system and an adequate risk management system, the Bank shall implement internal documents regulating the Bank's activity that define the interaction between structural units and officials of the Bank in order to achieve the Bank's goals. This regulation aims at improving the business continuity of the Bank, timely response to changes in business conditions.

The action plan for effective corporate governance envisages, in particular, a formation of a transparent and effective corporate governance model that can balance the interests of the Bank's shareholders, managers, business partners and clients and society as a whole.

In 2021, the Bank has fully complied with the Corporate Governance Principles.

No violations of the internal rules for 2021 by the members of the Bank's Supervisory Board were revealed.

Possible prospects of further development of the issuer.

In the future, the Bank will continue to conduct banking activity and develop in this area. The development of the Bank (issuer) is based on the ethical principles of doing business, defined in the Code of Corporate Ethics. The upcoming prospect of further development of the Issuer is to ensure profitable activity provided that positions in the interbank market and private banking market is strengthen, improving corporate governance system, ensuring effective risk management and internal control system, increasing the level of technological equipment and business continuity with improving information security system. The prospects of further development of the issuer depends on legislative amendments, it is related to ensuring the adoption and implementation of adequate management decisions in accordance with changes in the external environment. Prospects of further development of the Bank are determined by the level of efficiency of implementation of financial policy, improvement of HR, increase of number of clients, etc.

According to the Articles of Association, the Bank’s governing bodies are as follows:

- the General Meeting of Shareholders;
- the Supervisory Board;
- the Management Board.

The General Meeting of Shareholders is the supreme governing body of the Bank. The General Meeting of Shareholders is convened at least once a year.

According to Article 49 of Law of Ukraine “On Joint-Stock Companies” (hereinafter, “the Law”) regarding the special aspects of holding a general meeting by joint-stock company consisting of one person, the provisions of Articles 33-48 regarding the procedure for convening and holding a general meeting of a joint-stock company do not apply to the joint stock company with one shareholder. The powers of the general meeting of the joint-stock company provided for in Article 33 of the Law and the internal documents of joint-stock company are exercised by the shareholder solely. The decision of the shareholder on issues related to the competence of the general meeting shall be formalized by its in writing (in the form of a decision). Such a decision has the status of the minutes of the general meeting of the joint-stock company.

Given that 100% of the shares belong to one shareholder, the powers of the General Meeting of Shareholders are exercised by such shareholder alone. The decisions of the Bank's Shareholder can be found at the link on the Bank's website: https://www.pravex.com.ua/o-banke/pro-nas/ustanovchi-dokumenti.

In 2021, Shareholder Resolutions were made in respect of the following matters:

- approval of the annual financial statements of “PRAVEX BANK” JSC for 2020 and the report of “BAKER TILLY UKRAINE” LLC, external Auditor of the Bank, to the annual financial statements of the Bank for 2020;
- approval of the annual financial statements of “PRAVEX BANK” JSC as at December 31, 2020 and for the year that ended on this date;
- approval of the report of “BAKER TILLY UKRAINE” LLC, external Auditor of the Bank, to the annual financial statements of the Bank for 2020;

- approval of the report of “BAKER TILLY UKRAINE” LLC, external Auditor of the Bank, on the results of assessment of the Bank’s assets quality and of acceptability of collateral under loan transactions of “PRAVEX BANK” JSC as at January 01, 2021;
- distribution of income and loss of “PRAVEX BANK” JSC;
- approval of the Management Report of “PRAVEX BANK” JSC as at December 31, 2020 and for the year that ended on this date;
- approval of the Supervisory Board Report and the Supervisory Board Assessment Report for 2020;
- approval of the Management Board Report for 2020;
- approval of the Report on Remuneration of the Members of the Supervisory Board for 2020;
- approval of the Report on Remuneration of the Members of the Management Board for 2020;
- termination of powers and election of a new composition of the Supervisory Board of “PRAVEX BANK” JSC;
- election of the Chairman and the Deputy Chairman of the Supervisory Board of “PRAVEX BANK” JSC;
- approval of the terms and conditions of civil-law agreements that will be concluded with the Members, the Chairman and the Deputy Chairman of the Supervisory Board of “PRAVEX BANK” JSC and setting the amount of remuneration paid to the Members of the Supervisory Board of “PRAVEX BANK” JSC.
- election of the person who will be authorized to sign agreements with the Members, the Chairman and the Deputy Chairman of the Supervisory Board of “PRAVEX BANK” JSC;
- approval of amendments to the terms and conditions of civil-law agreements concluded with the independent Members, the Chairman and the Deputy Chairman of the Supervisory Board of the Bank and authorization of the person to sign amendment agreements to concluded civil-law agreements with the independent Members, the Chairman and the Deputy Chairman of the Supervisory Board of the Bank;
- approval of the Remuneration and Incentive Policies of the Bank.

Extraordinary general meetings were initiated by the Shareholder of the Bank. There are no restrictions on the right to participate and vote.

Supervisory Board

The Supervisory Board of the Bank exercises control over activities of the Bank’s Management Board, protects the rights of depositors, other creditors and shareholders of the Bank. The Supervisory Board of the Bank does not participate in management of current activities of the Bank.

The Supervisory Board of the Bank shall be elected by the General Meeting of Shareholders among the Bank’s shareholders, their representatives and independent members (independent directors) for a term not exceeding three years.

The independent directors shall comply with the requirements set forth by the legislation of Ukraine with regard to the independency of directors.

The Supervisory Board of the Bank shall perform all the duties conferred by the applicable law of Ukraine, Articles of Association and Regulation on the Supervisory Board of the Bank.

The competence of the Supervisory Board, among other things, shall include:

- approval of draft annual financial statements of the Bank before their submission for final approval by the General Meeting of Shareholders;
- approval of the Bank's development strategy in accordance with the key lines of business outlined by the General Meetings of Shareholders, defining and approval of the risk management strategy and policy, procedures for their management, as well as the list of risks, their maximum size; control over the effectiveness of the risk management system; approval of the Bank's internal documents on risk management in accordance with the relevant regulations, ensuring control over their implementation, compliance and timely updating;
- defining the Bank's credit policy;
- ensuring the proper functioning of an adequate system of internal and external control; detection of errors in the control system and development of proposals and recommendations for their elimination; control over the effectiveness of external audit, objectivity and independence of the auditor; exercising control over the elimination of deficiencies identified by the National Bank and other state government and executive authorities that supervise the Bank's activities within its competence;
- appointment and dismissal of the Chairman, Deputy Chairman (s) and members of the Management Board of the Bank, head of the Bank's internal audit function;
- approval of civil law agreements, employment agreements (contracts) concluded with members of the Bank's Management Board, heads of the Bank's internal audit, risk management and compliance functions, setting the amount of their remuneration;
- consideration of the conclusion of the Bank's independent auditor and preparation of recommendations to the General Meeting of Shareholders for a decision to be adopted in this regard;
- approval of the Bank's recovery plan and ensuring the performance of the Bank's recovery functions; identification of sources of capitalization and other sources of financing for the Bank;
- taking decision on the establishment of standing or temporary committees within the Supervisory Board to support its own mission and activities, such as the Audit Committee, the Risk Management Committee;
- approval of the market value of property in cases envisaged by the law and the Charter;
- taking decision on the implementation of significant changes in the Bank's activities;
- approval and regular review of the non-performing assets management strategy and the operational plan;
- exercising other powers that may be delegated by the decision of the General Meeting of Shareholders to the competence of the Supervisory Board, or referred to the competence of the Supervisory Board by applicable legislation.

In accordance with the requirements of applicable legislation and the Articles of Association of the Bank, the Supervisory Board of the Bank shall consist of not less than five members, three of which shall be independent.

As of 01.01.2021 the Supervisory Board of the Bank was represented by seven members, three of whom being independent:

Mr. Ezio Salvai – Chairman of the Supervisory Board

Mr. Corrado Casalino– Deputy Chairman of the Supervisory Board (independent)

Mr. Fabrizio Mallen –member of the Supervisory Board (independent)

Mr. Andrea Fazzolari - member of the Supervisory Board

Mr. Lorenzo Fossi - member of the Supervisory Board

Mr. Emanuele Collini - member of the Supervisory Board

Ms. Laura Febbraro - member of the Supervisory Board (independent).

During 2021 the following changes in the composition of the Supervisory Board took place:

Effective 29.12.2021 the powers of member of the Supervisory Board Mr. Emanuele Collini were terminated at his own request in accordance with the written notice of the Bank on 14.12.2021. As of the date of termination of powers of member of the Supervisory Board no person was elected to replace Mr. Emanuele Collini on his position.

In view of the above, the personal composition of the Supervisory Board of the Bank as of 31.12.2021 is represented by:

Mr. Ezio Salvai – Chairman of the Supervisory Board

Mr. Corrado Casalino – Deputy Chairman of the Supervisory Board (independent)

Mr. Fabrizio Mallen – member of the Supervisory Board (independent)

Ms. Laura Febbraro - member of the Supervisory Board (independent)

Mr. Andrea Fazzolari - member of the Supervisory Board

Mr. Lorenzo Fossi - member of the Supervisory Board

The powers and responsibilities of Chairman, Deputy Chairman and members of the Supervisory Board are determined by the Articles of Association, Regulation on the Supervisory Board and civil law contracts.

In 2021 the Supervisory Board meetings were convened not less than on a quarterly basis in accordance with the Regulation on the Supervisory Board and Ukrainian legislation.

There have been 18 meetings of the Supervisory Board convened in total during 2021, 12 of which with personal presence of Board members by means of videoconference and 6 – by absentee voting.

The Supervisory Board of the Bank adopted decisions within its competence as specified by the Bank’s Articles of Association and applicable law.

Among the issues considered by the Supervisory Board during the year were, in particular, but not limited to: approval of the Capitalization Program, approval of the Strategy and Business Plan of the Bank for 2022-2025, approval of the Funding Plan of the Bank, approval of the Recovery Plan of the Bank, approval of Annual Audit Plan 2021, approval of the Bank’s budget for 2021, quarterly reports on corporate and retail business results, quarterly financial statements of the Bank and quarterly financial statements for ISP Group consolidation purposes, quarterly risk management reports containing information on credit risk, market risk and operational risk, status of implementation of problem assets management strategy and operational plan for 2021-2023, quarterly AML and compliance reports, quarterly corporate secretary reports etc., approval of the updated organizational chart, appointment and resignation of Members of the Management Board and heads of the Bank’s structural units.

According to the resolution of the sole Shareholder of JSC “PRAVEX BANK” - Intesa Sanpaolo (Turin, Italy), the remuneration is paid to four members of the Supervisory Board - three independent members and the Chairman of the Supervisory Board.

The amount of the annual remuneration of each member of the Supervisory Board is set by the resolution of the Shareholder and paid once a year on December 15th pursuant to the procedure set forth in civil law agreements concluded with the Supervisory Board members.

If December 15th falls on a non-working or public holiday, the remuneration is paid on the first following working day.

In case of early termination of the term of office of a member of the Supervisory Board who receives remuneration, for any reason, the Bank shall pay remuneration in the amount proportional to the time worked, within one month from the date of termination of powers.

In 2021 remuneration to the members of the Supervisory Board of the Bank was paid on December 15th, 2021 in accordance with the resolution of the Shareholder of the Bank dated 22.04.2021 and civil law agreements concluded with the members of the Board for their participation in work of the Supervisory Board and Supervisory Board committees during the year.

The total annual (fixed) remuneration of members of the Supervisory Board of “PRAVEX BANK” JSC during 2021 amounted to EUR 60,000.

The remuneration accrued to members of the Supervisory Board was paid in non-cash form by transferring it to their own accounts open in EUR at the official exchange rate of the NBU on the day of payment.

During 2021 the criteria for determining the remuneration of members of the Supervisory Board did not change. The remuneration of members of the Supervisory Board of the Bank did not depend on the annual results of the Bank.

No enforcement actions were applied by governmental authorities towards members of the Supervisory Board.

Committees of the Supervisory Board

- ✓ **Audit Committee**

In 2020, the Audit Committee of the Supervisory Board was established (hereinafter the “Audit Committee” or “Committee”) (the Minutes of the extraordinary meeting of the Supervisory Board No. 4_20 dated 27.04.2020, Agenda Item 1). The Audit Committee is a standing committee that performs corresponding advisory, consultative and support functions for the Supervisory Board, paying particular attention to the periodic assessment of the adequacy and effectiveness of the Bank's overall internal control system.

The Committee shall perform its functions in accordance with the principles of independence and autonomy.

The Committee shall consist of three members of the Supervisory Board of the Bank the majority of whom, including its Chairman, is independent.

As of 31.12.2021 the composition of the Audit Committee was as follows:

Chairman of the Audit Committee – Mr. Corrado Casalino (independent)

Members of the Audit Committee:

- Ms. Laura Febbraro (independent)
- Mr. Lorenzo Fossi.

The Audit Committee shall have the following authorities:

- to exercise control independently or submits a request for its implementation to the relevant divisions of the Bank;
- to seek information, explanations and support from any structure of the Bank and / or external auditors;
- to apply to the competent body of the Bank for permission to obtain external consultations;
- to request the presence of the Bank's managers at the Committee meeting(s), as well as the presence of external advisers and / or statutory auditors;
- to invite occasional attendees.

The Committee in performing its duties is assisted by the Bank's Internal Audit Department, which must be sufficiently qualified to support the Committee in its ongoing audits, analysis and other duties undertaken on an ongoing basis.

The Committee has, inter alia, the following responsibilities:

- to analyse the annual financial statements and quarterly financial reports;
- to review the most important accounting issues, also in relation to complex and/or extraordinary operations;
- to oversee that the establishment of accounting policies by the Bank is in line with the ISP Group standards;
- to monitor the financial reporting process and submit recommendations or proposal to ensure its reliability and integrity;
- to oversee the functionality and reliability of the Bank's procedures ensuring compliance with laws, regulations and the Articles of Association, based on the assessment at least annually by the Compliance, Anti-Money Laundering, Administrative Financial Governance and Internal Audit Functions;
- to monitor compliance with anti-money laundering rules and the comprehensiveness, functionality and adequacy of the anti-money laundering controls;

- to assess the efficiency and adequacy of the Bank's internal control system, by obtaining regular reports from the control functions and local Administrative Financial Governance;
- to perform other tasks and duties stipulated by the applicable legislation of Ukraine.

The Committee meets at least once a quarter, with the purpose, inter alia, of preliminary acknowledgement of financial statements of the Bank, annual audit plans, reports on audit completion with the possibility of convening additional meetings on specific topics that are considered relevant.

In 2021 the Audit Committee had 6 meetings 5 of which were held with personal presence of Committee members by means of videoconference and 1 – by absentee voting.

The decisions were adopted in accordance with the scope of authorities of the Committee.

- ✓ **Risk Management Committee**

In 2020 the Risk Management Committee of the Supervisory Board was established (hereinafter the "Risk Management Committee" or the "Committee" (the Minutes of the Supervisory Board No.3_20 dated 27.03.2020. Agenda Item 22). The composition of the Risk Management Committee was confirmed by the decision of the Supervisory Board dated 27.04.2020 (the Minutes of the extraordinary meeting No. 4_20, Agenda Item 1).

The Risk Management Committee is a standing committee that provides relevant recommendations, conclusions and support to the Supervisory Board, paying special attention to control over existing risks and the general risk management system of the Bank.

The Committee shall perform its functions according to the principles of independence and autonomy.

The Committee shall consist of three members of the Supervisory Board of the Bank, the majority of whom, including its Chairman, is independent.

The composition of the Risk Management Committee as of 01.01.2021 was as follows:

Chairman of the Risk Management Committee – Mr. Fabrizio Mallen (independent)

Members of the Risk Management Committee:

- Mr. Corrado Casalino (independent)
- Mr. Emanuele Collini.

In the course of 2021 the composition of the Committee was changed, in particular, simultaneously with termination of authorities of member of the Supervisory Board on 29.12.2021 Mr. Emanuele Collini resigned from the membership of the Committee.

Therefore, as of 31.12.2021 the composition of the Risk Management Committee is as follows:

Chairman of the Risk Management Committee – Mr. Fabrizio Mallen (independent)

Members of the Risk Management Committee:

- Mr. Corrado Casalino (independent).

The Risk Management Committee has the following authorities:

- to seek information, explanations and support from the Risk Management Department, management and other employees of the Bank;
- to apply to the competent body of the Bank for permission to obtain external consultations;
- to request the presence of the Bank's managers at the Committee meeting (s), as well as the presence of external consultants;
- to invite temporary attendees.

The Committee in performing its duties is assisted by the Bank’s Risk Management Department, which must be adequately skilled in order to support the Committee in carrying out its activities, analysis and other duties undertaken on an ongoing basis.

The Committee has, inter alia, the following responsibilities:

- to support the Supervisory Board of the Bank in examining and defining the business model, the strategic direction and the risk appetite, so as to enable the Supervisory Board to be aware of the risks to which this model exposes the Bank and understand the methods through which risks are recognized and assessed;
- to control that pricing/setting tariffs for banking products takes into consideration the bank’s business model and the risk management strategy;
- to support the Supervisory Board of the Bank in the decision of outsourcing of internal activities in accordance with the outsourcing policy of the Bank;
- to support the Supervisory Board of the Bank in defining the risk management policies and the RAF and in ensuring the consistency between the strategic plan, the RAF, and the budget, also with regard to the evolution of the internal and external conditions in which the Bank operates;
- to oversee the implementation of the strategies for capital and liquidity management as well as for all other relevant risks of an institution, such as market, credit, operational (including legal and IT risks) and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy;
- to ensure fulfilment of other functions and duties regarding the issues of risk-management, defined by the Supervisory Board of the Bank, and those stipulated by the applicable legislation of Ukraine.

The Committee meets at least once a quarter, with the purpose, inter alia, of preliminary acknowledgment of quarterly reports of risk-management and compliance functions with the possibility of convening additional meetings on specific topics that are considered relevant.

In 2021 the Risk Management Committee had 8 meetings 5 of which were held with personal presence of Committee members by means of videoconference and 3 – by absentee voting.

The decisions were adopted in accordance with the scope of authorities of the Committee.

Management Board

The Management Board is the executive body of the Bank. It manages the Bank’s current activities, establishes funds necessary for its statutory activities and is responsible for the Bank’s performance in accordance with the principles and procedure established by the Articles of Association of the Bank, resolutions of the General Meeting of Shareholders and the Supervisory Board.

The Management Board is elected by the Supervisory Board and consists of the Chairman of the Management Board, its Deputy Chairmen and members of the Management Board, including the employee responsible for the financial monitoring of the Bank whose candidature is agreed with the National Bank of Ukraine. The internal structure of the Management Board, the number of Deputy Chairmen of the Management Board, and the scope of their powers are determined by the Regulation on the Management Board. The Management Board acts on behalf of the Bank, is accountable to the General Meeting and the Supervisory Board and organizes implementation of their resolutions.
As of December 31, 2021, the Management Board of the Bank is represented by:

- Mr. Burani Stefano – Chairman of the Management Board of the Bank.
- Mr. Babaiev Semen Zavluievych – Deputy Chairman of the Management Board of the Bank, Head of Retail Division.
- Mr. Lupo Francesco – Member of the Management Board of the Bank, Head of Corporate Division.
- Mr. Caprioli Giuseppe Dario - Member of the Management Board of the Bank, Head of COO Division.
- Ms. Kramarova Svitlana Mykolaivna - Member of the Management Board of the Bank, Head of CFO Division.
- Ms. Pokhodziaieva Olena Yevgenivna - Member of the Management Board of the Bank, Head of Compliance and AML Department, Responsible Officer of the Bank for Financial Monitoring.
- Mr. Leshchenko Ruslan Ihorovych – Member of the Management Board of the Bank, Head of CLO Division.

During 2021, the following changes took place in the Management Board of the Bank:

- In accordance with the Decision of the Supervisory Board of the Bank dated 31.05.2021 (Minutes No.8_21):

  - Authorities of Mr. Corrias Gianluca as the Chairman of the Management Board of the Bank was terminated on June, 10, 2021 with the subsequent transfer to the position of Advisor to the Chairman of the Management Board of the Bank (being still Member of the Management Board of the Bank) from June, 11, 2021;
  - Mr. Burani Stefano was appointed to the position of the Chairman of the Management Board of the Bank starting from June 11, 2021 (order about his taking up the position after his approval by the National bank of Ukraine dated 18.08.2021).
- In accordance with the Decision of the Supervisory Board of the Bank dated 30.07.2021 (Minutes No.10_21):
  - Mr. Corrias Gianluca was resigned as the Advisor to the Chairman of the Management Board of the Bank and excluded from the composition of the Management Board of the Bank on July 30, 2021;
- In accordance with the Decision of the Supervisory Board of the Bank dated 25.08.2021 (Minutes No.11_21):
  - Mr. Marko Kozelj was resigned as the Head of CLO Division and excluded from the composition of the Management Board of the Bank on August 31, 2021.
- In accordance with the Decision of the Supervisory Board of the Bank dated 26.10.2021 (Minutes No.15_21):
  - Mr. Leshchenko Ruslan was appointed to the position of Head of CLO Division, the Member of the Management Board starting from November 1, 2021.
- In accordance with the Decision of the Supervisory Board of the Bank dated 22.12.2021 (Minutes No.18_21):
  - Mr. Lupo Francesco was resigned as the Head of Corporate Division and exluded from the composition of the Management Board of the Bank on December 31, 2021.

The Bank's Management Board is held at least twice a month at meetings with the personal presence of members of the Management Board (including by remote participation by telephone or video conference). Or if necessary, the Bank’s Management Board may also be organized via voting by correspondence (poll) in the manner prescribed by the Regulation on the Management Board of the Bank.

In 2021, the meetings of the Management Board of the Bank were held in full compliance with the requirements set out in the Regulation on the Management Board of the Bank.

In 2021, 29 meetings of the Bank's Management Board were held (21 of them with the personal presence (including by remote participation via videoconference) and 8 – via voting by correspondence).

The competence of the Management Board and issues submitted for its approval are established by the Bank's Articles of Association.

The committees of the Management Board, as of 31.12.2021 include:

- Credit Committee (CC)
- Credit Risk Governance Committee (CRGC)
- Non-Performing Assets Committee (NPAC)

- Assets and Liabilities Management Committee (ALCO)
- Operational Risk Committee (ORC)
- Change Management Committee (CMC)
- Information Security Management Committee (ISMC)
- Crisis Governance Committee (CGC)
- Tender Committee (TC)

The activity of the Committees of the Management Board, except for the Tender Committee, is regulated by the Regulation on the Management Committees of the Bank, which was approved by the Minutes of the Management Board of the Bank No.18_21 dated 30.08.2021, Agenda item 12. The activity of the Tender Committee is regulated by the Regulation on Tender Committee approved by the Minutes of the Supervisory Board dated 31.01.2020 No.1_20, Agenda item 7.

Meetings of the committees of the Management Board are held in accordance with the approved regulations, namely the Credit Risk Governance Committee (at least once a month), the Credit Committee (at least twice a month - the Bank holds meetings of the Credit Committee every week), the Non-Performing Assets Committee (at least once a month), the Assets and Liabilities Management Committee (at least once a month), the Operational Risk Committee (at least once a quarter), the Change Management Committee (at least once a month), Information Security Management Committee (at least once a quarter), Crisis Governance Committee (in case of crisis or emergency), Tender Committee (least once a month).

Meetings of the committees are convened by the Chairperson in accordance with the approved procedure. The Members of the committees have the right to convene a meeting, in which case the Chairperson should convene the meeting as soon as possible. Also, the Members of committees may also initiate the convening of an extraordinary meeting.

Credit Committee

The Credit Committee was established by Resolution of the Supervisory Board dated 22 December 2008 in accordance with the Articles of Association or internal regulations of the Bank. The Credit Committee is the permanent decision-making committee of the Bank regarding performing counterparties, including potentially problem assets, whose main responsibility consists in adopting credit decisions in line with the issued strategic guidelines and credit policies, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws and Group regulations. Information on the Credit Committee is detailed in the Internal Control System section.

The Credit Committee according to its authorities:

- discuss and rule upon credit proposals of performing counterparties within the prerogatives delegated to it by the Bank's Supervisory Board;
- approve the proposals submitted by the operative structures in credit area regarding credit proposals that due to their characteristics (i.e., nature, or importance, or duration) exceed the credit delegated prerogatives;

- for those credit proposals, which exceed the Local Credit Delegated Prerogatives request an advisory opinion from Parent Company's competent Credit Department:
    - in case of full compliance with the advisory opinion received from the Parent Company, Credit Committee shall take the final decision, unless due to the nature of transaction or of the underlying counterparty, the final decision falls within the exclusive prerogatives of the Supervisory Board.
    - in case the Credit Committee would decide not to fully conform with the Parent Company advisory opinion ("over-ruling"), it shall submit the final credit decision to the Supervisory Board. However, the recourse to the over-ruling should be limited to extraordinary circumstances. The intention to over-rule (partially or totally) the advisory opinion shall be communicated to the Head of ISBD along with the exhaustive explanation of the reasons prior to the final decision-making. The above mentioned explanation shall be also made available to the ISP Head Office structure that issued the advisory opinion.
- report on a quarterly basis to the Supervisory Board on all credit decisions taken, following receipt of advisory opinions issued by the relevant ISP Head Office structures;
- approve deviations from the standard clauses included in the credit, collateral and guarantees contracts, in relation to specific credit applications, following the binding opinion of the Legal and General Secretariat Department;
- adopt the necessary measures related to potentially problem assets;
- approves action plans related to potentially distressed assets within Proactive Credit Management;
- validate the action plans related to potentially problem assets under Proactive Credit Management;
- for those action plans regarding potentially problem assets under Proactive Credit Management, whose exposure exceeds the Bank's Credit Delegated Prerogatives for potentially problem assets:
    - request the relevant opinion from Parent Company's competent Credit Department;
    - validate the action plan after receipt of the relevant ISP opinion. In exceptional circumstances, the Committee may deviate from the opinion received from ISP, while providing the issuing ISP Credit Department with an exhaustive explanation of the reasons behind such deviation.
- decide on any other issues in accordance with the internal regulations relevant to the scope of its competence.

As at 31 December 2021, the Bank's Credit Committee is represented by:

Chairperson: Chairman of the Management Board – Mr. Burani Stefano.

Members:
- Head of CLODivision – Mr. Leshchenko R.I.;
- Head of Retail Credit Department – Ms. Yemelyanova N.V. (with the voting right within her competence);
- Head of Corporate Credit Department Ms.Yakymovska O.P. (with the voting right within her competence);

- Head of Retail Division – Mr. Babaiyev S. Z. (with the voting right within his competence);
- Head of Corporate Division Mr. Lupo Francesco(with the voting right within his competence).

In 2021, the Credit Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Credit Committee has held 65 meetings in 2021 out of which 30 – by personal presence via videoconference and 35 – via voting by correspondence).The Committee passed resolutions within its powers, as described above. In addition but not limited to the Committee passed resolutions regarding corporate and retail lending, changes in lending conditions, limits on interbank transactions, accreditation of insurance companies, monitoring over the execution of covenants by corporate clients.

Credit Risk Governance Committee

The Credit Risk Governance Committee (CRGC) was established by the Decision of the Supervisory Board dated 27 April 2017 in accordance with the Articles of Association/internal regulations of the Bank.

The Credit Risk Governance Committee (CRGC) is a permanent decision-making and advisory committee whose mission is to ensure a qualified and coordinated management of credit risk within the exercise of credit prerogatives of the Bank and in compliance with the applicable laws, Group regulations and Parent Company strategic decisions. The Committee's main responsibility is to define and update credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring and, for Product Governance purposes, to analyze and assess issues related to the launch and monitoring of the products that imply credit risk.

According to its authoroties the Credit Risk Governance Committee shall:

- elaborate and review periodically the proposal of the credit risk strategic guidelines to be submitted for the approval of the Bank's Supervisory Board;
- verify periodically the correct implementation of the approved strategic guidelines, evaluating, when needed, the necessary corrections thereof;
- establish and review periodically credit policies and other credit risk governance documentation in line with the adopted credit strategies approved by the Bank's Supervisory Board;
- review the reports of the Risk Management Department and Internal Audit and related action plans in the area of credit risk;
- review regularly the credit portfolio and related credit risk reports at least as regards the following aspects:
    - risk and profitability (credit strategies);
    - respect of the set limits (including RAF, concentration);
    - overall level of provisioning;
    - portfolio quality by segments, products, industries, geographical areas, currencies, etc;

   - performance of the internal models;
   - evolution of the repossessed assets' portfolio and its management.

and decide upon the necessary adjustments and issue respective recommendations.

- define the maximum exposure by the main criteria (e.g. market segment, industry, products, tenors, currencies, etc.);
- approve the internal sub-delegation of credit prerogatives (for both performing and non-performing loans) for up to the amount of the Bank's autonomy and in accordance with the Parent Company Guidelines, after having received the prior opinion of the Head Office competent structures;
- define the local management reporting formats, in accordance with the rules defined by the Parent Company;
- approve outsourcing of collection activities to a third party specialized companies included on the list of providers approved by the competent Corporate Body (Supervisory Board/Management Board/Tender Committee);
- approve outsourcing of the activities related to onsite inspections of collaterals (i.e. check of existence and physical conditions of pledged property etc.) to external specialized third parties (appraisers);
- decide on any other issues in accordance with the internal regulations relevant to the scope of its competence.
- For Product Governance purposes, in relation to Lending Products and Products implying a credit risk profile (s.a. credit/debit cards), the Credit Risk Governance Committee shall at least:
- analyze the market context through the examination of the market scenario;
- assess a preliminary product concept, and identify the most appropriate approval process according to product characteristics;
- assess the Feasibility of the new product proposals in the following terms:
   - identification of the Target Market;
   - definition of the Product Design and Product Testing Reports' layout and their related contents;
   - examination of Product Design and Product Testing Reports for the individual Product assessment.
- define the processes and procedures to ensure Products are correctly marketed and the related information to be provided to the customers and the network personnel;
- verify that the data protection regulations are respected in all the features of the proposed products;
- approve new Product Distribution Strategies as well as the information to be provided to Distributors. In this context, the Credit Risk Governance Committee authorizes, based on the opinion of the Compliance and AML Department, the use of Third Party Distributors;
- define the approach to be used for training and for the support in the sale process;
- decide to submit to the Management Board proposals for New Products that:
   - require an assessment of the risks-opportunities ratio, account taken of the importance assumed in the business plan and the consistency with the Risk Appetite Framework process,
   - during the assessment process, were objected by at least one Bank's Validation Function.
- approve the Feasibility Analysis;

- examine the applied Clearing process results and approve the product, authorizing the launch on the market.
- approve the Lending Products catalogue and its subsequent amendments;
- verify, periodically, the outcome of the post-sales monitoring activities, aimed at ensuring the consistency of the Lending Product characteristics with the objectives and interests of the Target Market and the evaluation of the main customer satisfaction indicators and status of complaints referred to the Lending Products and propose any corrective measures;
- ensure the preservation of all relevant documentation to track the checks carried out and the periodic alignment of the Bank's Management Board/Supervisory Board.

As of December 31, 2021, the Credit Risk Governance Committee is represented by:

Chairperson: Chairman of the Management Board - Mr. Burani Stefano.

Members:

- Head of CLO Division - Mr. Leshchenko R.I.;
- Head of Retail Division – Mr. Babaiev S.Z.;
- Head of Corporate Division – Mr. Lupo Francesco;
- CRO-Head of Risk Management Department (granted a special veto right) – Mr. Nastin S.O. (Acting CRO-Head of Risk Management Department starting from November 1st 2021)

CCO-Head of Compliance and AML Department – Ms. Pokhodziaieva O.Ye. (with the voting right limited to issues pertaining to Product Governance, and provided with a special veto right) In 2021, the Credit Risk Governance Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Credit Risk Governance Committee has held 15 meetings in 2021, out of which 12 – by personal presence via videoconference and 3 – via voting by correspondence).

The Committee passed resolutions within its powers, as described above. In addition but not limited to the Committee passed resolutions regarding agreeing on credit product / policy parameters, procedures, guidelines, rules related to the lending process / strategies for recovering non-performing and working loans, and considering reports from the Risk Management Department, coordination of conditions of cooperation with collection companies, accreditation of appraisal companies.

Non-performing Assets Committee (NPAC)

The Problem Assets Committee was established by Resolution of the Supervisory Board dated 27 April 2017 in accordance with the Articles of Association/internal regulations of the Bank.

The Non-Performing Assets Committee (NPAC) is the permanent decision-making committee of the Bank regarding non-performing assets and repossessed property whose main responsibility consists in taking the necessary measures in order to prevent and mitigate credit losses connected with non-performing assets and repossessed property and deteriorated assets, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws and Group regulations.

The NPAC according to its authorities:

- set borrowers' classification, by acknowledging, approving, rejecting or amending it;
- adopt the necessary measures related to deteriorated assets including provisioning, recovery activities, collateral enforcement, etc.;
- evaluate regularly the effectiveness of actions and measures adopted to manage deteriorated assets;
- discuss and rule upon asset repossession transactions for up to the amount delegated to it by the Supervisory Board;
- oversee the management of the assets under repossession through regular update reports;
- discuss and rule upon credit asset disposal initiatives (i.e. sale / assignment of claims) for up to the amount delegated to it by the Supervisory Board;
- submit for the approval of the Supervisory Board the repossession transactions and credit asset disposal initiatives exceeding the amount delegated to NPAC;
- for those credit proposals, which exceed the Local Credit Delegated Prerogatives for non-performing assets request an advisory opinion from Parent Company's competent Credit Department:
- in case of full compliance with the advisory opinion received from the Parent Company, NPAC shall take the final decision, unless due to the nature of transaction or of the underlying counterparty, the final decision falls within the exclusive prerogatives of the Supervisory Board;
- in case NPAC would decide not to fully conform with the Parent Company advice ("over-ruling"), it shall submit the final credit decision to the Supervisory Board that is entitled to overrule the advisory opinion. However, the recourse to the over-ruling should be limited to extraordinary circumstances. The intention to over-rule (partially or totally) the advisory opinion shall be communicated to the Head of ISBD along with the exhaustive explanation of the reasons prior to the final decision-making. The above mentioned explanation shall be also made available to the Parent Company Head Office structure that issued the advisory opinion;
- report on a quarterly basis to the Supervisory Board on all credit decisions taken following advisory opinions issued by the relevant structure of the Head Office;
- takes part in development and implementation of the strategy of problem assets management and operational plan in part of non-performing assets and repossessed property;
- takes part in preparation of the justified proposals on necessity of introduction of amendments to the strategy of problem assets management and operational plan in part of non-performing assets and repossessed property;
- approves decisions on borrowers/counterparties debt settlement in scope of authority, delegated by the Supervisory Board of the Bank;
- approves decisions on repossessed property management, including its sale, in scope of authority, delegated by the Supervisory Board of the Bank;
- approves standardized decisions on non-performing assets;

- takes part in developing the list of key indicators of efficiency for units and employees, involved within non-performing assets management, takes part in performing control on efficiency of debt settlement;
- makes proposals/requests in relation to approval measures on development and/or modernization of information systems of the Bank on non-performing assets management and repossessed assets management;
- takes part in defining the format and content of the Bank's reporting on non-performing assets management, considers management reporting on non-performing assets management and repossessed property management and upon necessity immediately takes part in approval decisions on taking prompt corrective measures for elimination of shortcomings, violations and increasing the efficiency of the process of non-performing assets management;
- takes part in development of regulation/procedures/orders/instructions on non-performing assets and repossessed property;
- considers report on a quarterly basis on non-performing assets management and repossessed property management prepared by the involved competent units;
- decide on any other issues in accordance with the internal regulations relevant to the scope of its competence.

As at 31 December 2021, the Non-performing Assets Committee is represented by:

Chairperson: Chairman of the Management Board – Mr. Burani Stefano.

Members:
Head of CLO Division – Mr. Leshchenko R.I.;
Head of Credit Management Department – Mr. Lytvynenko Yurii;
CRO-Head of Director of Risk Management Department (granted a special veto right) – Mr. Nastin S.O. (Acting CRO-Head of Risk Management Department starting from November 1st 2021)

In 2021, the Non-performing Assets Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Non-performing Assets Committee has held 16 meetings in 2021 out of which 15 – by personal presence via videoconference and 1 – via voting by correspondence).
The Committee passed resolutions within its powers, as described above.

Assets and Liabilities Management Committee (ALCO)

The Assets and Liabilities Management Committee was established by the Decision of the Supervisory Board dated 22 December 2008 in accordance with the Articles of Association/internal regulations of the Bank.

The Assets & Liabilities Management Committee (ALCO) is a permanent decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial and liability Products Governance in compliance with Parent Company guidelines, Bank's internal regulations, relevant laws, rules and regulations set by the competent authorities. The Committee's competences shall include the following tasks:

Risk Governance and Assessment

- analyze the relevant key market trends, to properly assess the general market conditions, with specific emphasis on interest rates, foreign exchange rates and liquidity;
- examine and validate, prior to subsequent submission to the Supervisory Board:
  - the policies and procedures pertaining to the management of banking book, trading book and liquidity risks (financial risks);
  - the general principles related to the internal transfer price system;
  - the general principles of the Fair Value Policy, the prudent Valuation and the Independent Price Verification;
  - in case of substantial change, the updated document of the Business Model rules,
  - the developments of behavioral model, and their periodical reviews according to the provisions laid down in the related "model change" documents.
  - the methodologies for evaluation of the financial risks on clients' investments.
- approve:
  - the methodologies and implementing/operating procedures for measurement of the banking book, trading book and liquidity risks (financial risks);
  - the implementation procedure for the internal transfer price system and its update;
  - the specific methods of the Financial Fair Value Policy, the implementation procedures of the prudent Valuation and the Independent Price Verification.
- coordinate and oversee, within the delegated powers, the implementation of strategies and policies of the Bank related to financial risks as well as the methodologies for their measurement and control and assess the necessary amendments thereof;
- ensure the effective compliance of the criteria and methodologies used for the measurement of risks as well as of the control procedures with the Parent Company's guidelines;
- allocate to the Bank's organizational units, for the areas within its competence, the "operative limits" received from the Parent Company8;
- monitor and evaluate on a regular basis the structure of on and off-balance sheet items of the Bank;
- evaluate periodically the overall risk profile and the liquidity risk of the Bank and its principal operating units, on the basis of the reporting received by the structures in charge;
- monitor regularly the trading book risk profile – if present - of the Bank and of its principal operating units, on the basis of the reporting received by the structures in charge;

- monitor compliance with the limits and targets (internal and regulatory requirements) within its competence;
- analyze any overruns of the limits and evaluate the mitigation actions approving a recovery plan where necessary; ensuring the implementation of such plans and measures within the established terms.

Operative Management

- define guidance for an operative banking book management, with particular focus on funding plans, exposure to interest rate, FX and liquidity risks, in strict cooperation with the Parent Company;
- define instructions for the proper banking book management in case of specific events or market developments occurrence, in strict cooperation with the Parent Company;
- approve, within the strategic guidelines and policies approved by the Supervisory Board of the Bank, the operational limits for third parties' placements, verifying periodically the related risk profile;
- approve the pricing including rates, of new and existing products and, in general, to decide on any price-related issues with reference to the Bank's products;
- provide, in case of a market emergency, for the institution of the ''Crisis Unit'', whom shall be delegated adoption of the contingency measures regarding liquidity risk, in strict cooperation with the Parent Company;
- examine the prospective "risk / reward" position of the bank versus the budget requirements and the recent historical profile of "risk / reward";
- assess the Bank positioning versus its competitors in terms of risks and market shares.

Product Governance

For Financial and Liability Products, the Committee shall:

- assess, prior to the approval by the Management Board and Supervisory Board, the draft policies regarding the product governance and the possible amendments thereof;
- analyze the market context through the examination of the market scenario;
- assess a preliminary Product Concept and identify the most appropriate approval process according to the product characteristics;
- assess the Feasibility of the new product proposals in the following terms:
    - identification of the Target Market;
    - definition of the Product Design and Product Testing Reports' layout and their related contents;
    - examination of the Product Design and Product Testing Reports for the individual product assessment.
- define the processes and procedures to ensure products are correctly marketed and the related information to be provided to the customers and the network personnel;
- verify that the data protection regulations are respected in all the features of the proposed products;
- approve the new Product Distribution Strategies, as well as the information to be provided to Distributors. In this context, the Assets & Liabilities Management Committee authorizes the use of Third-Party Distributors, based on the opinion of the Compliance function;
- define the approach to be used for training and for the support in the sale process;
- decide to submit to the Management Board proposals for New Products that:

- require an assessment of the risks-opportunities ratio, account taken of the importance assumed in the business plan and the consistency with the Risk Appetite Framework process,
- during the assessment process, were objected by at least one Bank's Validation Function.

- approve the Feasibility Analysis;
- examine the applied Clearing process results and approve the Products, authorizing the launch on the market;
- approve the Financial and Liability Products catalogue and its subsequent amendments;
- verify, periodically, the outcome of the post-sales monitoring activities, aimed at ensuring the consistency of the Financial and Liability Product characteristics with the objectives and interests of the Target Market and the evaluation of the main customer satisfaction indicators and status of complaints referred to those Products, and propose any corrective measures;
- ensure the preservation of all the relevant documentation to track the checks carried out and the periodic alignment of the Bank's Management Board and Supervisory Board.

Additional arrangements for the Financial Products (including OTC):

- approve the strategic asset allocation model portfolios proposed by the Product Governance Coordination Committee;
- approve the recommended portfolios in Financial Products;
- assess, at least on a half-yearly basis, the past performances of the recommended portfolios and the risk evolution of the actual customer portfolios;
- approve specifically the 'Marketability Rules' for the distribution of OTC derivatives;
- approve, in line with Parent Company policies and recommendations, specific exceptions to the distribution rules for OTC derivative products set by the internal regulation of the Bank.

General

- take decisions on any other issues in accordance with Policies and other internal regulations relevant to the scope of its competence;
- manage any other task assigned by the Management Board of the Bank.

As of December 31 2021, the Assets and Liabilities Management Committee is represented by:

Chairperson: Chairman of the Management Board - Mr. Burani Stefano.

Members:

- Head of CLO Division - Mr. Leshchenko R.I.;
- Head of Retail Division – Mr. Babaiev S.Z.;
- Head of CFO – Ms. Kramarova S.M.;
- Head of Corporate Division – Mr. Lupo Francesco;

CCO-Head of Compliance and AML Department – Ms. Pokhodziaieva O.Ye.(with the voting right limited to issues pertaining to Products Governance and provided with special veto right)In 2021, the Assets and Liabilities Management Committee held meetings in accordance with the frequency requirements established by internal regulations at least once a month.

The Assets and Liabilities Management Committee has held 25 meetings in 2021 out of which 12 – by personal presence via videoconference and 3 – via voting by correspondence).

The Committee passed resolutions within its powers, as described above. Furthermore, the Assets and Liabilities Management Committee passed decisions regarding the liquidity forecast, funding report, securities portfolio plan, financial risk report, interest rate monitoring, approval of a strategy for attracting retail and corporate deposits, approval of reference rates, conferral of authority to set individual rates, client cash flow reports, interest rate revisions, approval of new products/change of conditions under the existing products/the introduced products reporting

Operational Risk Committee (ORC)

The Operational Risk Management Committee was established by Resolution of the Supervisory Board dated 12 December 2018 in accordance with the Articles of Association/internal regulations of the Bank.

The Operational Risk Committee (ORC) is a permanent decision-making and advisory committee whose mission is to ensure a qualified and competent management of operational risk issues (ICT/cyber risk inclusive), in compliance with the applicable laws, Group regulations and internal procedures.

The Committee has the following responsibilities:

- assess, prior to their submission to the Supervisory Board of the Bank, proposals for adoption of the guidelines, policies and procedures pertinent to the management of operational risks (ICT/cyber risk inclusive);
- coordinate, within the delegated powers, the implementation of strategies and guidelines regarding operational risk, as well as methodologies, tools and procedures for the measurement and control of such risk, in cooperation with the Parent Company;
- oversee the implementation of a framework for the management of operational risk (ICT/cyber risk inclusive) in the Bank and assess periodically its efficiency; if necessary, it will propose relevant modifications to the Supervisory Board of the Bank;
- inform the Supervisory Board of the Bank on significant evolutions that might impact on the Bank's risk profile;
- verify periodically the operational risk profile of the Bank and oversee, within the guidelines issued by the Supervisory Board of the Bank, those particular situations or major risks that may have a material impact on the Bank's activity, by:
  - proposing to the Supervisory Board of the Bank the assignment of relevant tasks to the competent functions;
  - monitoring the progress status thereof;

- reporting to the Supervisory Board of the Bank in case of delay or non-compliance with planned activities.

- assure the adequacy and efficiency of the measuring and reporting tools used by the Bank, by evaluating the consistency between the business objectives and the instruments / processes for managing operational risk. Within this scope, the Committee is also responsible to propose to the Supervisory Board the validation of the respective risk management models, in accordance with the rules established by the Parent Company;
- receive reports from the Head of Risk Management Department concerning internal or external events that will or may have a significant impact;
- review periodically the operational risk reports prior to their submission to the Supervisory Board of the Bank;
- assess, prior to the submission for the approval of the Supervisory Board of the Bank, the objectives of security and business continuity with reference to: (i) the annual plan of verification on business continuity measures and (ii) the results of the periodical controls regarding security and business continuity;
- propose to the Supervisory Board of the Bank the risk transfer strategies in relation to operational risk and provide advice to the relevant Bank's functions on the best approach in relation to insurance types, coverage and franchises based on the Parent Company guidelines;
- propose to the Supervisory Board of the Bank the reporting system for issues related to operational risk, in accordance with the rules established by the Parent Company;
- manage any other task assigned to it by the Management Board of the Bank.

As of December 31, 2021, the Operational Risk Committee is represented by:

Chairman: Chairman of the Management Board - Mr. Burani Stefano.

Members:

- CCO-Head of Compliance and AML Department - , Responsible Officer of the Bank for Financial Monitoring – Ms. Pokhodziaieva O.Ye.V (with special veto right);
- Head of COO Division – Mr. Caprioli Giuseppe Dario;
- Head of CFO Division – Ms. Kramarova S.M.;
- CRO-Head of Director of Risk Management Department (granted a special veto right) – Mr. Nastin S.O. (Acting CRO-Head of Risk Management Department starting from November 1st 2021).

In 2021, the Operational Risk Committee held meetings in accordance with the frequency requirements established by internal regulations at least once a month.

The Operational Risk Committee has held 4 meetings in 2021.

The Committee passed resolutions within its powers, as described above. Furthermore, the meeting considered the following matters: hearing of quarterly operational risk reports, agreement and approval of the operational risk management policies, procedures, rules, hearing of progress reports in respect of the Committee's decisions.

Change Management Committee (CMC)

The Change Management Committee (CMC) is responsible for the strategic management of changes within the Bank's overall operations through the definition and monitoring of the Bank's project portfolio, prioritizing the respective projects and investments in line with the Bank's strategy, monitoring of the related activities and spending as well as solving any escalated issues.

The key tasks of the Committee, both at strategic and operational level, are set as follows:

- Guarantee a strategic management of business changes, which are realized through projects and investments, in accordance with the Bank's strategy;
- define the project portfolio, taking into consideration feasibility studies and business cases results;
- prioritize the project portfolio, based on the examination of mandatory and discretionary requirements as well as through the cost benefit analysis;
- formally approve the project portfolio and related guidelines for its management;
- make necessary decisions, in accordance with strategic business changes, that have an impact on project portfolio implementation;
- oversee the allocation of essential resources (financial, human and technological) within strategic projects to ensure an effective and efficient usage of the same;
- guarantee the effective usage of the Bank's capital budget for strategic initiatives, including proposal of changes of the project budget allocation (increase, redistribution, etc.) to the Supervisory Board of the Bank, when needed;
- approve, reject or postpone change requests to project portfolio roadmap (time, scope, resources);
- review progress report of strategic projects provided by Head of Organization and Project Management Office and/or respective Steering Committees and discuss the status with the respective project leaders, as needed (in terms of time, scope and resources);
- review budget monitoring report of strategic projects provided by the competent function;
- review and discuss reports to be submitted to the Supervisory Board of the Bank within the area of its competence;
- manage any other task assigned to it by the Management Board of the Bank.

As of December 31, 2021, the Change Management Committee is represented by:

Chairperson: Chairman of the Management Board - Mr. Burani Stefano.

Members:

- Head of CLO Division - Mr. Leshchenko R.I.;
- Head of Retail Division – Mr. Babaiev S.Z.;
- Head of COO Division – Mr. Caprioli Giuseppe Dario;
- Head of CFO Division – Ms. Kramarova S.M.;

- Head of Corporate Division – Mr. Lupo Francesco;
- Head of Organization and Project Management Office of HR and Organisation Department – Ms.Nesterenko G.M.

The Change Management Committee has convened 12 meetings in 2021 by personal presence via videoconference.

The Committee passed resolutions within its powers, as described above. Furthermore, the following was considered: project portfolio overview, launch of new projects, status report on the existing projects, CAPEX budget overview, IT requests development overview and approval.

Information Security Management Committee (ISMC)

The Information Security Management Committee (ISMC) is a permanent decision-making and advisory committee, whose mission is to ensure the efficient management of Information Security Management System of the Bank and Business Continuity processes (hereinafter – BCP) in compliance with the applicable laws and regulations, coordination of activity of structural units regarding ensuring of information security, introduction and efficient functioning of Information Security Management System of the Bank and BCP and enhancing optimization of processes and efforts for ensuring protection of the informational assets of the Bank, appropriate level of Business Continuity and minimization of risks for maximization of profitability and business possibilities. The ISMC shall at least:

- carry out measures regarding introduction and control of Information Security Management System and BCP functioning;
- approve and review regulatory documents of the Bank (Policies, Regulations, Rules etc) in terms of information security and BCP;
- review and submit proposals to the Management Board and the Supervisory Board of the Bank on amendments to the strategy of information security of the Bank;
- coordinate introduction of new projects, directions, strategic tasks for the bank's information security and information security measures;
- consider, approve and control of the projects implementation for the Bank's ISMS development, implementation, operation, monitoring, revision, supporting and improvement;
- determine the necessary optimal resources for implementation of information security measures;
- organize practical measures to raise awareness/training of the Bank's staff on information security issues;
- ensure timely monitoring of the state of implementation and effective functioning the Bank's ISMS, further assess possibilities for improvement and the need for corrective action;
- define measures regarding minimization of information security risks;
- prepare information as regards efficiency of Information Security Management System to be submitted for consideration of the Management Board of the Bank and/or the Chairman of the Management Board, and/or Supervisory Board of the Bank;

- decide on issues of Information Security Management System, including objectives and principles of management, methods, measures of information protection and ensuring of business processes continuity in information infrastructure of the Bank;
- report quarterly on key issues of information security of the Bank to the Management Board and Supervisory Board.

As of December 31, 2021, the Committee is represented by:

Chairperson: Chairman of the Board (Chief Information Security Officer) – Mr. Burani Stefano.

Members:
- Head of Cybersecurity and Business Continuity Management Department – Mr. Sirakov O.M.
- Head of CFO Division – Ms. Kramarova S.M.;
- Head of Retail Division – Mr. Babaiev S.Z.;
- Head of Corporate Division – Mr. Lupo Francesco;
- Head of CLO Division - Mr. Leshchenko R.I.;
- CCO-Head of Compliance and AML Department – Ms. Pokhodziaieva O.Ye. (with special veto right);
- CRO-Head of Risk Management Department – Mr. Nastin S.O. (with special veto right) (Acting CRO-Head of Risk Management Department starting from November 1, 2021)

The Information Security Management Committee has held 1 meeting in 2021 via voting by correspondence to consider the topic under its competence, in particular, approval of regulatory documents in part of IT security.

Crisis Governance Committee (CGC)

The Crisis Governance Committee (CGC) is a permanent decision-making, consulting and informing committee, whose mission is to monitor and manage risks and safeguard business value and main responsibility for setting out business continuity strategies aimed at dealing with major emergency situations. The CGC shall at least:

- ratify the Declaration of a State of Crisis, on proposal of the General Crisis Manager;
- set out the strategies to be implemented to deal with major emergencies;
- ratify the extraordinary expenditures proposed by the General Crisis Manager;
- approve the internal communication to the state authorities, the other banking system operators, the media and customers.

As of December 31, the Committee is represented by:

Chairperson: Chairman of the Supervisory Board (General Crisis Manager); – Mr. Salvai Ezio.

Members:
- Head of COO Division– Mr. Caprioli Giuseppe Dario;
- Head of CLO Division – Mr. Leshchenko R.I.;
- Head of CFO Division – Ms. Kramarova S.M.;

- Head of Corporate Division – Mr. Lupo Francesco;
- Head of Retail Division – Mr. Babaiev S.Z.;
- CCO-Head of Compliance and AML Department (provided with special veto right) – Ms. Pokhodziaieva O.Ye;
- CRO – Head of Risk Management Department (provided with special veto right) – Mr. Nastin S.O. (Acting CRO-Head of Risk Management Department starting from November 1, 2021)

The Crisis Governance Committee has convened no meetings in 2021.

Tender Committee

The Tender Committee is a collegial governing body of the Bank that operates on a permanent basis. The main objective of the Committee's activity is to ensure the most favorable conditions for purchasing of goods, works and services (hereinafter referred to as "Procurement activities") based on the principles of competitiveness, transparency and collegial approach.

The Committee makes decisions on Procurement activities for the purpose of ensuring the Bank's operations related to the supply of required goods, works and services for a total amount equal to or above 25,000 Euro. For the purpose of obtaining set objectives the Committee:

- selects the tender winners and determines the basic conditions of contracts and agreements signed with the tender winners;
- decides on specific items connected with Procurement activities if requested by Procurement and Contract Management Office (hereinafter referred to as PACMO); the purchases out of Procurement activities (independent categories, below 15,000 Euro and purchases directly chosen (approved) by the Supervisory Board) are not under Tender Committee consideration;
- performs other activities within the scope of objectives and tasks set by "Rules on Procurement".

As of December 31 2021, the Tender Committee is represented by:

Chairperson: Head of CFO Division – Ms. Kramarova S.M.

Members:

- Head of Planning and Control – Ms. Barkar I.V.
- Head of COO Division – Mr. Caprioli Guiseppe Dario
- Chairman of the Management Board – Mr. Burani Stefano (with a right of veto);
- Chief Accountant - Head of Accounting Department – Ms. Ostakhova L.V.

The Tender Committee has convened 15 meetings in 2021, out of which 12 – by personal presence via videoconference and 3 – via voting by correspondence.

The Tender Committee passed resolutions within its powers, as described above. Furthermore, the Tender Committee took decisions on matters related to the coordination of cooperation with the existing/exclusive supplier as a result of direct negotiations, approval of the results and the preferred tenderer for the purchase of goods, works or services, type of the planned tender, tender invalidation, obtaining additional information from potential partners and other procurement-related matters.

Information about preliminary resolutions to conduct significant transactions

No.	Date	Name of the authorised body passing the resolution	Total transactional threshold (UAH '000)	Value of the issuer's assets under the latest annual financial statements (UAH '000)	Ratio of total transaction threshold to the value of the issuer's assets under the latest annual financial statements (per cent)	Scope	Date of publication on the public database of the Committee or though other parties that publish information on behalf of stock market participants	Link to the corporate website with information about the resolution on the preliminary consent to conduct significant transactions
1	2	3	4	5	6	7	8	9
1.	31.05.2021	Supervisory Board	1 435 753	7 665 343	18,73	Approval of the limits to Intesa Sanpaolo S.P.A	31.05.2021	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi

Risk management

At the end of 2021, a number of risks were realized for the Ukrainian economy and financial system: the escalation of the conflict in Russia, a sharp rise in energy prices, the spread of a new strain of coronavirus. Taken together, these factors worsened the expectations of economic development and led to an increase in the risk premium for investing in Ukraine. As a result, funding conditions for the public and private sectors in foreign markets have deteriorated. In view of this, cooperation with international financial organizations remains a prerequisite for proper macroeconomic risk management.

At the same time, the economy has a sufficient margin of safety to counter these threats. International reserves have exceeded 90% of the IMF composite criterion, they are enough to smooth out possible fluctuations in the foreign exchange market. The financial system is in excellent condition: stable, well-capitalized and liquid.

Like the central banks of most developing markets, the NBU responded to all challenges and increased the discount rate. Favorable price conditions, high domestic demand and a general decline in interest rates have created significant business demand for loans. The volume of the Hryvnia corporate loan portfolio of banks is growing by more than 40% year on year. Lending to micro, small and medium-sized businesses grew the fastest. This sector is interesting for banks primarily because of the low level of creditworthiness and the possibility of forming a diversified portfolio. To some extent, the growth in lending was fueled by the government's “5-7-9 program”, but most new loans were provided outside of it. The quality of the corporate loan portfolio is improving compared to 2020: the frequency of defaults of borrowers is falling, the volume of non-performing loans is declining. New loans are provided to borrowers with good financial performance. Retail lending is also extremely active: pre-crisis growth rates of consumer lending have resumed, and mortgage lending is growing by almost 60% year on year. Retail lending is segmented and concentrated, with four to five banks providing the main increase in portfolios in each area. In consumer lending leadership by the financial institutions that offer the best services and IT solutions.

The level of interest rates on consumer loans does not determine the demand of the population, so banks keep them at a high level. The profitability of this segment attracts investors, in particular, several international banking groups have announced their interest in entering the Ukrainian market. In the mortgage segment, the leading positions are occupied by banks that were the first to increase their portfolio. Many banks are holding back the significant expansion of mortgage lending, including the unregulated primary real estate market and insufficient protection of creditors' rights. Banks are gradually improving their retail portfolio credit risk estimates. These estimates, however, are quite heterogeneous. As of January 1, 2022, the risk weight of consumer unsecured loans has been increased to 150%, which will form an additional reserve of capital to cover possible losses, in particular from the implementation of adverse events.

Banks funding is sufficient for further lending. Despite the fact that the share of funds in current accounts is high, these resources are quite stable. At the same time, attempts by banks to encourage customers to keep funds on time deposits for a longer period are becoming noticeable. Due to the growth of the NBU discount rate and higher competition for longer resources, banks will be forced to raise rates on term funds. The premium for the maturity of household deposits is growing. The highest inflow of funds on time deposits is observed in banks, the counter offers higher rates. The share of external debt in bank funding is extremely low, so the rising cost of resources in foreign markets does not pose risks to financial institutions. In general, the cost of financing banks remains low given the significant share of free resources attracted to current accounts. Lending rates fell mostly during the year, primarily on loans to small, medium and micro businesses and mortgages. Therefore, the net interest margin of banks decreased moderately. Instead, the increase in the loan portfolio contributed to the growth of net interest income, and significant volumes of transactional business - to increase net commission income.

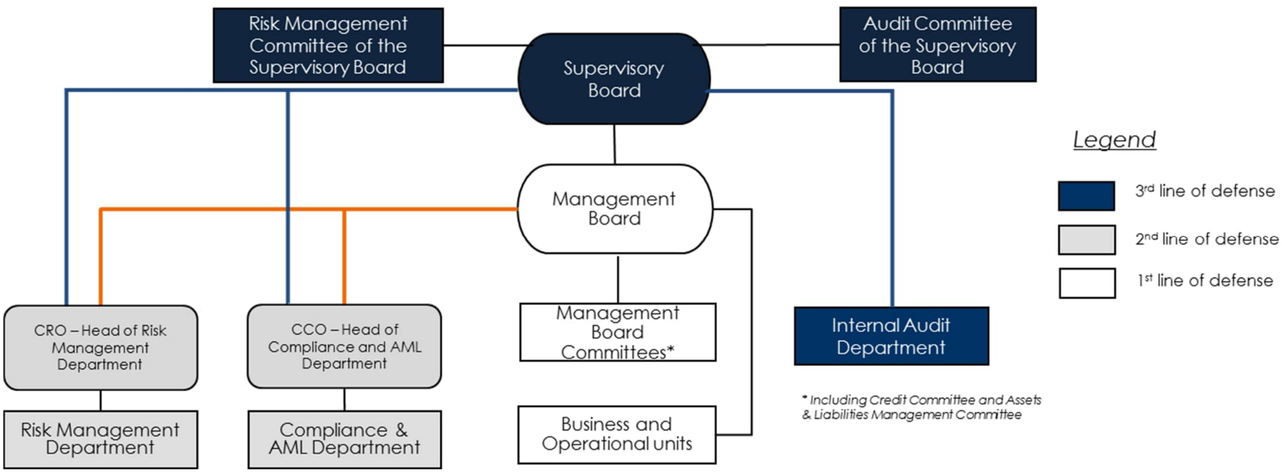
Together with low reserve costs and restrained administrative costs, this ensured a record profitability of the sector. The current profitability of the banking sector and the significant stock of capital allow financial institutions to meet a number of new capital requirements. These include covering 50% of the estimated amount of operational risk, increasing the weight of risk on unsecured consumer loans and government securities in foreign currency. Stress testing of the largest banks conducted in 2021 showed that banks' capital risks have decreased compared to the previous estimate in 2019. The need for capital in the adverse scenario has halved. The key risk of banks today is interest rate risk, including the risk of loss of value of securities due to changes in expected returns. Banks for which significant risks have been identified are already working to minimize them through restructuring programs.

Compliance with the minimum capital requirements is not enough to ensure the stability of the banking system. According to Basel standards, banks must maintain a buffer of capital conservation and a buffer of systemic importance. In Ukraine, these buffers were deactivated in 2020 at the beginning of the crisis. Currently, given the record profitability of the banking sector, there are all the prerequisites for activating these buffers. At the same time, in order not to reduce lending activity, they will be implemented in stages. From January 1, 2023, banks will have to hold capital to meet the systemic risk buffer requirement and only half of the capital conservation buffer. The full capital conservation buffer will need to be formed by January 1, 2024. In the future, the requirements for banks will be transformed in view of changes in banking legislation.

Given the above risk factors, the Bank has strengthened its risk management system. During 2021, despite the risk factors, the Bank managed to keep the risks at a level that meets the risk appetites of the Bank, as evidenced by the Bank's capital adequacy ratios.

The Bank's activities in general largely depend on the chosen concept of risk management.

The organizational structure of the Bank's risk management is shown in the table below:



The purpose of the banking risk management process is to limit or minimize them, as risks cannot be completely avoided. The Bank defines the following goals of risk management: achieving an optimal balance between risk appetites and business strategy; improving the decision-making process on emerging risks and mitigating them; reduction of losses by controlling the ratio of risk management costs and costs that may be incurred as a result of the impact of such risks; ensuring the functioning of a continuous and effective risk management process, as well as maintaining awareness of all Bank employees about risk and risk culture.

The risk management process is a set of rules, procedures, human / technological / organizational resources and control actions aimed at identifying, measuring or evaluating, monitoring, controlling, reporting and managing risks. Risk management is implemented through the following approaches and methods: risk avoidance (rejection of risky projects), acceptance through localization (establishment of risk appetites and limits to establish the level of acceptability of risk return compromise), mitigation through diversification, diversification of activities, risk allocation over time, the division of responsibilities between the participants in the transaction) and compensation (insurance and hedging used for credit risk, interest rate risk of the banking book and operational risk) of all possible risks or risks that may arise in different segments of the bank.

The Bank's risk management process consists of the following stages:

- Identification;
- Measurement and evaluation (methods and tools);
- Monitoring and control;
- Reporting;
- Management.

At each stage, all units of the first, second and third levels of protection have certain responsibilities.

For this stage of the Bank's development, credit risk, liquidity risk, market risk and interest rate risk of the banking book are identified as significant among financial risks, and operational risk and compliance risk among non-financial risks. The Bank's risk management policy allows identifying and analyzing the above types of risks, setting risk appetites and acceptable limits that can be quantified within the approved risk appetite; carry out appropriate monitoring on an ongoing basis, based on advanced administrative and information systems. The Bank also recognizes other types of risk that are present in the Bank's operations but are not material or fundamental: strategic risk and reputation risk.

The risk management strategy aims to achieve the following goals:

- Maintaining risk awareness and risk culture;
- Achieving the optimal balance between risk appetites and business strategy;
- Improving the decision-making process on emerging risks and mitigating them;
- Reduction of losses by controlling the ratio of risk management costs and costs that may be incurred due to the impact of such risks;
- Ensuring the functioning of a continuous and effective risk management process;
- The risk management strategy involves the use of a full range of risk reduction tools and the use of each specific tool depending on the type of risk. The main task of the Risk Management Department is to ensure full delineation of the activities of units that sell banking products and risk management. The Risk Management Department independently analyzes and makes decisions within its competence or proposes to the relevant collegial decision-making body if the level of its authority is exceeded. The Bank is exposed to risk in each area of its activities. To minimize risk, the Bank has

implemented a risk assessment and control system that operates in accordance with the Bank's internal regulations, as well as the requirements and recommendations of the NBU, Intesa Sanpaolo Group, internal auditors, Basel Committee on Banking Supervision and the experience of leading financial institutions.

The Bank conducts quarterly stress testing of financial and operational risks in order to assess potential losses in crisis situations, determine capital adequacy and develop a response system. The Risk Management Department reports on the results of stress testing at the meetings of the Management Board and the Supervisory Board of the Bank. Stress testing is defined by the relevant documents of the Bank, namely policies, rules and procedures.

The main categories of risk inherent in the Bank's business are credit risk, liquidity risk, market risk, interest rate risk, currency risk, operational risk and goodwill risk.

Credit Risk

Credit risk is the probability of loss or additional loss or loss of planned income due to default by the debtor / counterparty of its obligations under the terms of the contract.

Credit risk arises on all active banking operations, except for debt securities and other financial instruments in the Bank's trading book. Credit risk is present in all activities where the outcome depends on the activities of the contractor, issuer or borrower. This occurs whenever the Bank disburses funds, commits to commit, invests or otherwise risks the funds in accordance with the terms of actual or contingent transactions, whether on-balance-sheet or off-balance sheet.

The purpose of credit risk management is to maximize the Bank's risk-adjusted rate of return by keeping credit risk within acceptable parameters and ensuring that risk decisions made within the organization are within and consistent with the nature and level of risk that stakeholders the organization is ready to take over. The Bank manages the credit risk inherent in the entire portfolio, as well as the risk in individual loans or transactions.

Credit risk management is supervised by the Risk Management Department. In order to mitigate the impact of credit risk on the Bank, the Risk Management Department takes the following actions:

- Regularly updates internal documents on credit risk;
- Monitors the quality of the loan portfolio on a monthly basis, depending on the number of days in arrears in terms of:
    - debtors or groups of relevant counterparties;
    - debtors who have a common type of economic activity;
    - debtors of one geographical region;
    - credit products.
- Monitors the structure of collateral / collateral for loans on a monthly basis;
- Monthly monitors the integrity of the Bank's reserves for expected credit losses in accordance with the requirements of IFRS and the amount of credit risk in accordance with the requirements of the NBU;

- Monthly analyzes the dynamics of the movement of the loan portfolio PL / NPL and reserves in major currencies (UAH, USD, EUR);
- Monitors the level of risk appetites and limits set by the Bank on a monthly basis and signals the need for an escalation process;
- Conducts a stress test at least once a quarter;
- Develops credit risk management schemes based not only on national standards but also on international practice;
- Analyzes new products and services in terms of impact on credit risk;
- Provides timely and complete preparation of credit risk reporting for the Bank's corporate bodies in accordance with the frequency and forms of reporting established by the relevant internal documents.

The main methods used in the Bank's credit risk management:

- Assessment of creditworthiness in terms of contractor, field of activity, competitors, etc .;
- Distribution of powers to make credit decisions depending on the size of the loan and the amount of potential risk;
- Diversification of the loan portfolio, ie allocating funds to a significant number of contractors, if possible, in different areas of activity, in order to prevent the simultaneous non-fulfillment of obligations by a significant number of contractors; investing in different assets rather than concentrating investments in only one or more possible instruments;
- Setting limits on the placement of funds per counterparty (limitation of concentration) depending on its financial condition and scope of activities to limit losses in the event of default of a particular counterparty;
- Financing of liquid collateral, which allows to significantly reduce the amount of credit risk, assessment of collateral by an independent appraisal company, monitoring and revaluation of mortgaged property, input data on movable property in the State Register of encumbered movable property;
- Introduction of alternative cash flows in the form of additional collateral, guarantees, sureties, insurance, reserves to cover credit losses.

Market Risk

Market risk the probability of losses or additional losses or loss of planned income due to adverse changes in foreign exchange rates, interest rates, the value of financial instruments. It can also be defined as the risk of losses on on-balance sheet and off-balance sheet items arising from adverse changes in market prices. From the point of view of regulation, market risk arises from all positions included in the trading book of banks, as well as from the positions of commodity and currency risk in the balance sheet.

The purpose of market risk management is to keep the impact of the Bank's market risk within self-established parameters in the range of possible changes in the market, such as exchange rate, market price of instruments, etc.

Market risk management is supervised by the Risk Management Department. The Bank operates only in the banking book, so the market risk to which the Bank is exposed is only currency and commodity risk. To reduce the impact of market risk on the Bank, the Risk Management Department takes the following actions:

- regularly updates internal documents on market risk;
- monitors the level of open currency position on a daily basis;
- daily forecasts the value of an open currency position and its relationship to regulatory capital;
- daily analyzes market changes taking into account the dynamics of exchange rates and market prices for securities;
- assesses market risk on a daily basis by calculating the value at risk (VaR) for currency risk;
- establishes the ratio of quantitative assessment of market risk with the Bank's profit;
- monitors the level of risk appetites and limits set by the Bank on a daily and monthly basis and signals the need for an escalation process;
- conducts a stress test at least once a quarter;
- analyzes new products and services in terms of the impact of market risk;
- prepares timely and complete market risk reporting for the Bank's corporate bodies in accordance with the periodicity and forms established by the relevant internal documents.

The Parent Company conducts ongoing monitoring of the market risk to which the Bank is exposed, within the policies, rules and procedures established by the Intesa Sanpaolo Group.

Interest rate risk of the banking book

Interest rate risk of the banking book - the probability of losses or additional losses or loss of planned income due to the impact of adverse changes in interest rates on the banking book. It relates to the current or projected risk to the Bank's capital and income arising from adverse changes in interest rates that affect the position of the banking book. When interest rates change, the present value and timing of future cash flows change. This, in turn, changes the base value of the Bank's assets, liabilities and off-balance sheet items and, consequently, its economic value. Changes in interest rates also affect the Bank's income by changing interest rate sensitive income and expenses, which affects net interest income (NII).

The purpose of managing the interest rate risk of the banking book is to keep the impact of interest rate risk of the Bank within self-established parameters in the range of possible changes in interest rates.

Interest rate risk management is supervised by the Risk Management Department. To reduce the impact of interest rates on the Bank's activities, the Risk Management Department takes the following actions:

- regularly updates internal documents on the interest rate risk of the banking book;
- conducts a monthly GAP analysis of interest-bearing assets and liabilities;
- performs monthly analysis of the dynamics of yield curves in major currencies (Hryvnia, Dollar, EURO);
- assesses the interest rate risk of the banking book on a monthly basis by calculating changes in the economic value of capital (EVE) and net interest income (NII);
- establishes the ratio of quantitative assessment of the interest rate risk of the banking book with the Bank's profit;

- monitors the level of risk appetites and limits set by the Bank on a monthly basis and signals the need for an escalation process;
- conducts a stress test at least once a quarter;
- analyzes new products and services in terms of impact on the interest rate risk of the banking book;
- prepares timely and complete reporting on the interest rate risk of the banking book for the corporate bodies of the Bank in accordance with the frequency and forms established by the relevant internal documents.

Liquidity Risk

Liquidity risk - the probability of incurring losses or additional losses or loss of planned income due to the Bank's inability to finance the growth of assets and / or fulfillment of its obligations in a timely manner. It is also defined as the risk that the Bank will be unable to meet its payment obligations due to its inability to raise funds on the market (liquidity risk of financing) or to liquidate its assets (market liquidity risk).

The purpose of liquidity risk management is to provide a high degree of confidence that the Bank has the ability to both meet its daily liquidity obligations and withstand periods of liquidity stress that affect both secured and unsecured funding, which may be the source of a particular bank or the whole market.

Liquidity management is carried out by the Treasury and Stock Markets Department of the CFO Division in the following stages: daily, weekly and monthly liquidity planning.

At the stage of daily liquidity planning analysis of all incoming and outgoing cash flows in national and foreign currencies for the current and previous days, analysis of future cash flows and liquidity forecasting at the end of the current day, analysis of assets and liabilities.

The Treasury and Markets Department of the CFO Division performs the following actions:

- calculates the maximum use of liquidity within the operating day - the maximum cumulative negative balance between incoming and outgoing payments on the Bank's correspondent accounts from the beginning of the day to the time of settlement. The Bank calculates this indicator at least once an hour both for all transactions and excluding transactions with the National Bank of Ukraine and other banks;
- calculates the available instant liquidity at the beginning of each business day - the amount of high-quality liquid non-cash assets (funds on correspondent accounts) available at the Bank at the beginning of the business day. The Bank calculates this indicator both in general (gross) and without taking into account cash flows from transactions with the National Bank and other banks (net);
- ensures a positive balance of the correspondent account with the NBU;
- ensures compliance with mandatory reserve requirements set by the NBU;
- ensures that high-quality liquid assets exceed the minimum level set by the relevant documents.

On a weekly basis, the Treasury and Stock Markets Department of the CFO Division, based on the liquidity gap report, forecasts liquidity for up to five years and, based on data received from structural units on future active and passive operations, models liquidity optimistically and pessimistically scenarios, studies the structure of assets according to the degree of its liquidity and analyzes the reasons for their changes.

Based on forecast information from structural units, a monthly report is prepared for the Assets and Liabilities Committee on liquidity for up to six months in terms of major currencies and liquidity ratios are forecast.

The long-term liquidity management process is carried out by the Treasury and Stock Markets Department of the CFO Division and the Risk Management Department.

Tasks of long-term liquidity management:

- ensuring that the Bank has sufficient funds to cover liquidity needs during the established periods;
- creating conditions to avoid the forced sale of assets with loss of value to meet the Bank's obligations;
- creating conditions for minimizing the additional need for high-quality liquid assets and additional attraction of resources with higher value;
- compliance with the requirements of the NBU on liquidity standards;
- achieving the Bank's strategic goals.

Liquidity risk management is supervised by the Risk Management Department.

To reduce the impact of liquidity risk on the Bank, the Risk Management Department performs the following actions:

- regularly updates internal documents on liquidity risk;
- performs daily analysis of high quality liquid assets (HQLA) and their trends;
- calculates daily / every decade the liquidity ratios of the NBU, such as N6 and LCR in all currencies and LCR in foreign currencies;
- NSFR in all currencies, NSFR in foreign currencies and NSFR in Hryvnia are calculated every decade;
- daily monitors the internal concentration limits set by the relevant documents;
- conducts monthly GAP-analysis based on contractual cash flows;
- assesses liquidity risk on a monthly basis by calculating LCR and NSFR according to the parent company's approaches;
- monitors the level of risk appetites and limits set by the Bank on a monthly basis and signals the need for an escalation process;
- conducts a stress test at least once a quarter;
- analyzes new products and services in terms of liquidity risk;
- prepares timely and complete liquidity risk reporting for the Bank's corporate bodies in accordance with the periodicity and forms established by the relevant internal documents.

Liquidity management in case of crisis situations:

- detection of primary alarms, constant monitoring of them and identification of procedures to be implemented when the lack of liquidity becomes apparent;

- legalization of actions of managers responsible for liquidity management in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- a clear list of immediate measures and interventions to address the emergency.

A liquidity emergency may be caused by a market situation or any specific banking situation; in terms of duration, they can be classified as temporary (lasting several days) or long-term. Crisis liquidity management caused by the deteriorating financial condition of the Bank is set out in the Emergency Liquidity Plan (CLP).

CLP provides:

- detection of primary alarms, constant monitoring of them and identification of procedures to be implemented when the lack of liquidity becomes apparent;
- legalization of actions of managers responsible for liquidity management in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- a clear list of immediate measures and interventions to address the emergency.

The early warning system can identify three different situations:

- normal operating conditions;
- prior warning;
- maximum warning.

Initial early warning signals are aimed at identifying signs of potential liquidity stress, both systemic (market) and specific to the Bank (intrabank).

The Bank has implemented an intervention strategy and measures to address the Bank's liquidity emergencies, which are set out in the Emergency Financing Plan (CFP).

CFP intervention strategies and tools are defined and selected according to the type, duration and intensity of the liquidity emergency (“normal state”, “warning”, “maximum anxiety”), and the context in which the stress (or emergency) occurs related to the specifics of the Bank, ie, internal factors, or an emergency related to the market, ie, external factors).

The Bank has also developed a system of liquidity concentration limits, which ensures the prevention of significant liquidity outflows of the Bank and the acceptance of excessive risk appetites.

Operational Risk

Operational risk is defined as the probability of losses or additional losses or loss of planned income due to deficiencies or errors in the organization of internal processes, intentional or unintentional actions of bank employees or others, failures of information systems of the bank or due to external factors. Operational risk also includes legal risk, ICT risk, but not strategic and reputational.

The purpose of operational risk management is the timely detection and minimization of operational risk, as well as its prevention. Priority is given to ensuring maximum preservation of assets and capital by reducing or preventing possible losses.

The Risk Management Department oversees the operational risk management process. The Risk Management Department is responsible for appointing risk coordinators - responsible employees of the Bank's operational risk departments, who are responsible for managing operational risks, each in its own unit.

The Bank adopts an operational risk management strategy based on sound management principles and aimed at ensuring long-term strength and continuity for the Bank, as well as achieving an optimal balance between growth and profitability and emerging risks.

To reduce the impact of operational risk on the Bank, the Risk Management Department performs the following actions:

- regularly updates internal documents on operational risk management;
- coordinates the appointment of risk coordinators;
- conducts regular trainings and tests for risk coordinators;
- manages the database of operational risk events;
- develops, monitors and reports on key risk indicators;
- monitors and controls risk appetites and limits set for operational risk, and signals the need for an escalation process;
- annually carries out the process of self-diagnosis, which includes: assessment of the business environment and scenario analysis;
- conducts stress testing at least once a quarter;
- analyzes new products and services in terms of operational risk;
- analyzes operational risk for outsourced functions;
- provides methodological, analytical and consulting support to the Bank's operational risk management units;
- prepares timely and complete operational risk reporting for the Bank's corporate bodies in accordance with the periodicity and forms established by the relevant internal documents.

To reduce the impact of operational risk on the Bank, the risk coordinator performs the following actions:

- regularly improves knowledge of operational risk management through assigned training and testing;
- implements internal documents on operational risk management in its department;
- compiles and timely collects and submits information on operational risk events to the database of internal operational risk events and controls the quality and completeness of the entered information;
- ensures that the unit identifies and assesses the operational risks inherent in new products / significant changes in banking activities;
- proposes management actions to reduce operational risk in its unit;
- provides a proper assessment of key risk indicators identified in its unit;
- performs self-diagnosis of risk, which includes assessment of the business environment and scenario analysis of the unit, ensures the collection and consolidation of relevant data, as well as participates in the analysis of the results;
- participates in the quarterly process of operational risk stress testing;
- implements mitigation measures identified for its unit.

Based on the analysis of statistical data on operational risk events, the Bank has developed a system of KRI (key risk indicators) - a combination of quantitative and qualitative indicators that are dynamic and reflect the Bank's propensity to operational risk. The KRI system is used by the Bank as an early warning of adverse trends and / or events, and shows an increase in operational risk. Such indicators are reported on a monthly basis to the members of the Bank's Operational Risk Management Committee with appropriate recommendations to eliminate or minimize the negative impact of risk if necessary.

Strategic Risk

Strategic risk - the likelihood of losses or additional losses or loss of planned revenues due to improper management decisions and inadequate response to changes in the business environment.

The main purpose of strategic risk management is to limit or minimize the risk to which the Bank is exposed, as well as to ensure maximum preservation of assets and equity while minimizing (eliminating) losses by introducing a sound system of strategic planning and monitoring at all organizational levels.

Strategic risk control is provided by the Planning and Control Department of the CFO Division as the main unit that performs the function of coordinating the budget process, consolidation, analysis and control of the budget.

To minimize strategic risk, the Planning and Control Department uses the following planning tools:

- Business plan
- Annual budget
- Forecast for the current year

If necessary, based on the results of the review, corporate bodies may decide to amend the Bank's policy in the appropriate direction in order to implement the strategy or instruct the Planning and Control Department of the Chief Financial Officer to provide additional calculations with justification.

Compliance risk

Compliance risk - the probability of losses / sanctions, additional losses or loss of planned income or loss of reputation due to non-compliance with the Bank, its employees, current legislation of Ukraine, regulations of the National Bank of Ukraine, market standards, fair competition rules, corporate ethics, conflict of interest, as well as internal documents of the Bank, including rules of ethical conduct, prevention and settlement of conflicts of interest.

Compliance risk related to sanctions and financial losses is attributed to operational risk, and reputational risk to reputational risk.

The Bank also considers to be included in compliance risk so-called behavioral risk, which, in the absence of a clear regulatory reference, is defined as the risk of judicial or administrative sanctions, material financial damage or reputational damage as a result of:

- unfair treatment of customers;
- endangering the integrity and proper functioning of financial markets;
- violation of regulations in the field of financial crimes (for example, the fight against money laundering, countering terrorism, embargoes, combating corruption, tax crimes, cybercrime).

Reputation risk

Reputation risk or reputational risk is the existing or potential risk of loss of profit or capital arising from a negative perception of the Bank's image by customers, counterparties, shareholders, investors and supervisors. The main purpose of reputation risk management is to prevent and curb any negative impact on your image through strong, sustainable growth that can create value for all stakeholders, as well as minimize possible adverse events through strict, rigorous management, control and management of activities performed at different levels of service and functions.

To reduce reputational risk, the Bank uses the following instruments of influence:

- code of professional ethics and rules of conduct;
- external and internal monitoring systems;
- action plan in case of crisis circumstances;
- reputation risk assessment.

Reputational risk is a component of compliance risk.

Information technology risk

Information technology risk is the probability of an event and its consequences related to the use of information technology.

Risks in the field of information technology are divided into two types:

- risks that may arise as a result of staff actions;
- technological risks, which also include equipment failures or failures.

The process of risk management in the field of information technology includes the process of risk identification, the process of assessing the degree of risk and the process of implementing measures aimed at reducing risk to an acceptable level.

The risk identification process involves periodically reviewing the Bank's systems as changes or problems are identified.

The risk assessment process takes into account the probability of risk, the magnitude of the consequences and possible recurrence.

The type and list of risk reduction measures are determined based on the nature of the risk and the threats it poses.

The Bank works with internal stakeholders, under the leadership of the parent company, to implement the Bank's digital transformation, strengthen the group's model of work, improve processes, programs and infrastructure.

The Bank manages risk based on the principles of continuity, foresight and hedging. The methods and systems of risk management used by the Bank are constantly modified to reflect changes in market conditions and products. In accordance with the requirements of Article 44 of the Law of Ukraine “On Banks and Banking” the Bank has a risk management system consisting of standing committees: Credit Committee, Credit Risk Management Committee, Non-Performing Assets Committee, Asset and Liabilities Management Committee, the Operational Risk Management Committee, the Internal Control Coordination Committee and the Crisis Management Committee.

The Risk Management Department is one of the separate structural subdivisions that provide risk management of the Bank.

The Bank's Supervisory Board determines the overall risk management strategy, approves and revises the Concept (Risk Management Policy), establishes the overall level of risk tolerance. The Management Board of the Bank is responsible for all risks accepted by the Bank and delegates part of its functions to the permanent profile Committees. The Bank's management, including risk management, is performed by the Bank's Management Board on the principles approved by the Supervisory Board within the framework of the overall risk management strategy and policy. Monitoring and control are carried out by the Bank's Management Board and standing committees under the direction of the Supervisory Board, as the highest supervisory body of the Bank. Risk management units are independent of business leaders, which is confirmed by subordination to the Bank's Supervisory Board.

The Credit Committee is the Bank's highest standing decision-making committee on productive counterparties, whose main authority is to make credit decisions in accordance with issued strategic credit guidelines and credit policy, acting within the Bank's credit authority and in accordance with the Group's laws and regulations.

The Credit Risk Management Committee is a permanent decision-making body and an advisory committee whose task is to ensure qualified and coordinated credit risk management within the scope of the Bank's credit powers and in accordance with applicable laws, Group regulations and strategic decisions of the parent company. The main function of the Committee is to define and update strategic guidelines on credit risk and credit management policies based on continuous monitoring of the loan portfolio.

Non-Performing Assets Committee is the Bank's highest standing decision-making committee on risky and unproductive counterparties, whose primary responsibility is to take the necessary measures to prevent and reduce the risk of credit losses associated with risky assets and assets that have deteriorated as a result within the limits of the Bank's credit authority and in accordance with the applicable laws and regulations of the Group.

The Assets and Liabilities Committee is a standing decision-making and advisory committee focused on financial risk management, asset management, strategic and operational asset and liability management in accordance with the parent company's guidelines, the Bank's internal regulations, legislation, rules and processes established by the competent authorities.

The Operational Risk Management Committee is a standing decision-making committee and an advisory committee whose task is to provide qualified and competent management of operational risk issues (including ICT / cyber risks) in accordance with current legislation, Group rules and internal procedures.

The Crisis Management Committee is a standing committee on decision-making, advising and informing, whose task is to monitor and manage risks and protect business values, and is responsible for developing business continuity strategies to address major emergencies.

Information about the external auditor

Ernst & Young Audit Services Limited Liability Company

Ernst & Young Audit Services Limited Liability Company – certificate of registration in the Register of Auditors and Auditing Entities maintained by the Auditors Chamber of Ukraine in accordance with the Law of Ukraine "On the Audit of Financial Statements and Audit Activities" No. 2258-VIII dated 21 December 2017 (registration number 3516, registration date 27 December 2018).

Ernst & Young Audit Services Limited Liability Company renders audit services to JSC "PRAVEX BANK" in the audit of financial statements as at 31 December 2021 and for the year then ended.

The key personnel of the Audit Company involved in the audit of the financial statements of 2021 are presented as follows:

Yulia Studynska (partner)

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 101256.

Final provisions

In 2021, the Bank had no disposals of assets that would exceed the limit established by its Articles of Association. Assets that exceeded the limit established by the Articles of Association were not measured for disposal purposes.

During 2021, the Bank conducted no transactions with derivative securities as an issuer

JOINT-STOCK COMPANY

“PRAVEX BANK”

Financial statements as at 31 December 2021 and for the year then ended with Independent auditor’s report

Translation from Ukranian original

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Independent auditor's report

To the Shareholder and the Supervisory Board of Joint Stock Company "PravexBank"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Joint Stock Company "Pravex Bank" (hereinafter, the "Bank"), which are presented on pages 64 to 170 and comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity 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 2021 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 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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
Assessment of expected credit loss on loans and advances to customers	
Assessment of expected credit losses in accordance with IFRS 9 "Financial instruments" is complex and inherently subjective process that requires application of judgements and making assumptions by the Bank's management. The use of different approaches and assumptions in respect of historical and forecast macroeconomic information in the assessment of such indicators as probability of default and loss given default, macroeconomic indicators, could produce significantly different estimates of expected credit loss on loans and advances to customers. In addition, the balance of loans and advances to customers represents a significant portion of total assets of the Bank and is a material to the financial statements. Therefore, assessment of expected credit loss on loans and advances to customers was a key area of judgment for the Bank's management. Information on expected credit loss and risk management policies is included in the Notes 4, 7 and 31 to the financial statements.	Our audit procedures included assessment of the methodology, approaches and assumptions used by the Bank in respect of historical and macroeconomic information in the assessments of expected credit losses on loans and advances to customers. We obtained an understanding, evaluated the design, and tested operating effectiveness of the controls related to the process of expected credit loss assessment on loans and advances to customers. We identified and tested controls related to calculations and input data. We tested information produced by the Bank and used in development of assumptions in calculation of expected credit loss, as well as for such indicators as: probability of default, loss given defaults, recoveries, forward-looking and macroeconomic indicators, which directly affect the amounts of expected credit loss on loans and advances to customers. Also, we analysed the Bank's information about expected credit loss on loans and advances to customers included in the notes to the financial statements.

Other information included in the Management report and the Bank's Annual Information of the Issuer of Securities for 2021

Other information comprises the Management report (including the Corporate Governance report), but does not include financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and other 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. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not and will 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.
When we read the Annual Information of the Issuer of Securities, if we conclude that there is a material misstatement therein, we will communicate the matter to the Supervisory Board.
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 Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the 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 and in accordance with "Requirements to the information related to the audit and review of capital market participants and organized commodity markets under supervision of the National Securities and Stock Market Commission (the NSSMC)" approved by the NSSMC Decision №555 dated 25 July 2021 (hereinafter – "NSSMC Requirements") :

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 29 October 2020 by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is one year.

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

We confirm that this independent auditor's report is consistent with the additional report to the Supervisory Board and the Audit Committee of the Bank, which we issued on 23 February 2022 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.

Reporting under the NSSMC requirements

- Full legal name of the Bank, information on the ultimate controlling party as well as ownership structure are disclosed in Notes 1 and 33 to the Bank's financial statements.

- As at 31 December 2021, the Bank had no subsidiaries and was not a controller or a participant of a non-banking group.

- The Bank is a public interest entity according to the requirements of Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Building a better working world

- Prudential ratios, established by the NSSMC for relevant activity of professional participants in capital markets and organized commodity markets, are not applicable to banks that perform professional activities at stock markets in accordance with "Regulation on prudential ratios for professional activities at stock markets and risk management requirements" (as amended) approved by the NSSMC Decision No.1597 dated 1 October 2015.

- Limited liability company "Ernst & Young Audit Services" (ERDPOU: 33306921, web-site: www.ey.com/ua) have audited the Bank's financial statements according to agreement No. GFS-2021-00027 dated 5 April 2021. The audit was conducted in the period from 1 April 2021 to 23 February 2022.

- The Bank's Audit Committee has not performed an examination of the Bank's financial and economic activities for the financial year 2021.

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

For and on behalf Ernst & Young Audit Services LLC

Svistich O.M.
General Director

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

Studynska Y.S.
Partner

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

Simak M.V.
Auditor

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

Kyiv, Ukraine

23 February 2022

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

(in thousands of Ukrainian hryvnias)				
Item	**Notes**	**31/12/2021**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**	**5**
ASSETS				
Cash and cash equivalents	6	937,739	1,005,572	787,608
Loans and advances to banks		-	282,849	377,325
Loans and advances to customers	7	4,768,272	3,098,315	1,435,797
Investments in securities	8	3,185,489	2,794,875	2,661,675
Investment property	9	12,777	32,872	19,380
Current income tax receivable		29	542	1,141
Intangible assets other than goodwill	10	151,398	132,426	102,773
Fixed assets	10	318,004	285,157	283,552
Other financial assets	11	22,199	12,918	26,065
Other non-financial assets	12	16,215	19,817	28,053
Non-current assets held for sale and disposal groups		-	-	41,264
Total assets		**9,412,122**	**7,665,343**	**5,764,633**
EQUITY AND LIABILITIES				
LIABILITIES				
Due to banks		-	300,214	214
Due to customers	13	7,285,788	5,427,926	3,638,304
Derivative financial liabilities		76	-	-
Debt securities issued by the Bank		1	1	3,583
Other borrowed funds	14	343,999	-	-
Provisions				
Provisions for credit related commitments and financial guarantees	15	9,421	15,944	3,335
Other provisions		88,585	1,930	8,175
Total provisions		**98,006**	**17,874**	**11,510**
Other financial liabilities	16	125,833	139,590	163,768
Other non-financial liabilities	17	70,569	54,793	52,217
Deferred income tax liabilities	25	9,237	5,247	-
Total liabilities		**7,933,509**	**5,945,645**	**3,869,596**

(in thousands of Ukrainian hryvnias)				
Item	**Notes**	**31/12/2021**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**	**5**
EQUITY				
Share capital	18	1,048,726	1,048,726	1,048,726
Retained earnings		(4,402,783)	(4,142,030)	(3,966,523)
Share premuim	18	4,600,754	4,600,754	4,600,754
Reserves and other funds		1,332	1,332	1,332
Other reserves	19	230,584	210,916	210,748
Total equity		**1,478,613**	**1,719,698**	**1,895,037**
Total liabilities and equity		**9,412,122**	**7,665,343**	**5,764,633**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" Stefano Burani

Acting Chief accountant
JSC "PRAVEX BANK" G.V. Yurchenko

DATE: 23 February 2022

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**2021**	**2020**
1	**2**	**3**	**4**
Interest income, including	21	552,191	455,466
Interest income calculated using the effective interest rate method	21	552,191	455,466
Fee and commission income	22	173,085	150,381
Fee and commission expenses	22	(60,203)	(50,971)
Other income	23	15,242	38 082
Interest expenses	21	(177,930)	(153,115)
Net gain (loss) from foreign exchange operations		38,819	(21,876)
Net gain (loss) arising from foreign currency translation		(20,904)	36,607
Net gain (loss) from investment property revaluation	9	(2,639)	975
Gains (losses) from initial recognition of financial assets at interest rates higher or lower than market rates		-	(2,618)
Gains (losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		40	23
Impairment gains (losses) determined in accordance with IFRS 9	7, 11, 15	(78,257)	(14,105)
Other gains (losses)		(575)	77
Personnel expense		(297,941)	(264,264)
Depreciation and amortization expenses		(93,120)	(82,598)
Other administrative and operating expenses	24	(314,057)	(274,867)
Profit (loss) before tax		**(266,249)**	**(182,803)**
Expenses for tax payment (income from tax refund)	25	-	-
Profit (loss)		**(266,249)**	**(182,803)**
Profit per share			
Basic profit (loss) per share from continuing operations (in hryvnias)	26	(0.16)	(0.11)
Total basic profit (loss) per share (in hryvnias)	26	(0.16)	(0.11)

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" Stefano Burani

Acting Chief accountant
JSC "PRAVEX BANK" G.V. Yurchenko

DATE: 23 February 2022

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**2021**	**2020**
1	**2**	**3**	**4**
Statement of comprehensive income			
Profit (loss)		(266,249)	(182,803)
Other comprehensive income			
Components of other comprehensive income that will not be reclassified to profit or loss before tax			
Other comprehensive income, before tax, gains (losses) from revaluation (revaluation of fixed assets)	19	25,503	19,941
The total amount of other comprehensive income that will not be reclassified to profit or loss before tax		**25,503**	**19,941**
Components of other comprehensive income that will be reclassified to profit or loss before tax			
Gains (losses) on financial assets at FVTOCI, before tax	19	3,632	(7,469)
The total amount of other comprehensive income that will be reclassified to profit or loss, before tax		**3,632**	**(7,469)**
Total other comprehensive income, before tax		**29,135**	**12,472**
Total comprehensive income, before tax		**(237,114)**	**(170,331)**
Income tax relating to components of other comprehensive income that will not be reclassified to profit or loss			
Income tax related of other comprehensive income gains (losses) from revaluation (revaluation of fixed assets)	19	(4,058)	(6,091)
Total of income tax relating to components of other comprehensive income that will not be reclassified to profit or loss		**(4,058)**	**(6,091)**
Income tax relating to components of other comprehensive income that will be reclassified to profit or loss			
Income tax related of gains (losses) on financial assets at FVTOCI	19	47	849
Total of income tax related to components of other comprehensive income that will be reclassified to profit or loss		**47**	849
Total other comprehensive income, after tax		**25,124**	**7,230**
Total comprehensive income, after tax		**(241,125)**	**(175,573)**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" Stefano Burani

Acting Chief accountant
JSC "PRAVEX BANK" G.V. Yurchenko

DATE: 23 February 2022

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		581,712	490,889
Interest expenses paid		(168,266)	(146,093)
Fee and commission income received		173,228	150,084
Fee and commission expenses paid		(60,203)	(50,981)
Results of foreign currency transactions		38,819	(21,876)
Other income received		12,256	27,664
Personnel costs paid		(296,511)	(278,108)
Other administrative and operating expenses, paid		(345,275)	(273,101)
Cash used in operating activities before changes in operating assets and liabilities		**(64,240)**	**(101,522)**
Net decrease/(increase) in loans and advances to banks		274,170	149,427
Net decrease/(increase) in loans and advances to customers		(1,716,808)	(1,566,192)
Net decrease/(increase) in other financial assets		(9,588)	23,581
Net decrease/(increase) in other non-financial assets		2,630	1,260
Net increase/(decrease) in amounts due to banks		(300,214)	300,000
Net increase/(decrease) in amounts due to customers		1,985,084	1,451,569
Net increase/(decrease) in debt securities issued by the Bank		-	(3,618)
Net increase/(decrease) in other financial liabilities		(21,736)	(37,194)
Net increase/(decrease) in other non-financial liabilities		6,861	11,674
Net cash flows from operating activities		**156,159**	**228,985**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities		(153,349,503)	(149,903,471)
Proceeds from the sale of investments in securities		152,941,988	149,735,001
Acquisition of property, plant and equipment		(19,130)	(19,733)
Proceeds from the sale of investment property		15,764	28,565

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
Proceeds from the sale of property, plant and equipment		5,227	10,213
Acquisition of intangible assets		(58,485)	(60,844)
Net cash from investing activities		**(464,139)**	**(210,269)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Other borrowed funds received		343,999	-
Net decrease in cash and cash equivalents		**36,018**	**18,716**
Effect of the NBU exchange rate fluctuations on cash and cash equivalents		**(103,851)**	**199,248**
Cash and cash equivalents at the beginning of the period	6	**1,005,572**	**787,608**
Cash and cash equivalents at the end of the period	6	**937,739**	**1,005,572**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" Stefano Burani

Acting Chief accountant
JSC "PRAVEX BANK" G.V. Yurchenko

DATE: 23 February 2022

								(in thousands of Ukrainian hryvnias)
Item	**Notes**	**Attributable to shareholders**						**Total equity attributable to shareholders**
		share capital	**share premium and other additional capital**	reserves and other funds	other reserves	**retained earnings**	**total**	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Balance as at 1 January 2020	18	**1,048,726**	**4,600,754**	**1,332**	**210,748**	**(3,966,523)**	**1,895,037**	**1,895,037**
Total comprehensive income		**-**	**-**	**-**	**7 230**	**(182,803)**	**(175,573)**	**(175,573)**
Profit (loss) for year 2020		**-**	**-**	**-**	-	(182,803)	**(182,803)**	**(182803)**
other comprehensive income		**-**	**-**	**-**	7,230	**-**	**7,230**	**7,230**
Amortisation of property, plant and equipment revaluation reserve	19	**-**	**-**	**-**	(7,084)	7,084	**-**	**-**
Transactions with shareholders	19	**-**	**-**	**-**	22	212	**234**	**234**
Closing balance as at 31 December 2020 (balance as at 1 January 2021)	18	**1,048,726**	**4,600,754**	**1,332**	**210,916**	**(4,142,030)**	**1,719,698**	**1,719,698**

(in thousands of Ukrainian hryvnias)

Item	Notes	Attributable to shareholders						Total equity attributable to shareholders
		share capital	share premium and other additional capital	reserves and other funds	other reserves	retained earnings	total	
1	2	3	4	5	6	7	8	9
Closing balance as at 31 December 2020 (balance as at 1 January 2021)	18	**1,048,726**	**4,600,754**	**1,332**	**210,916**	**(4,142,030)**	**1,719,698**	**1,719,698**
Total comprehensive income		-	-	-	**25,124**	**(266,249)**	**(241,125)**	**(241,125)**
Profix (loss) for year 2021		-	-	-	-	(266,249)	**(266,249)**	**(266,249)**
other comprehensive income		-	-	-	25,124	-	**25,124**	**25,124**
Amortisation of property, plant and equipment revaluation reserve	19	-	-	-	(5,362)	5,362	-	-
Transactions with shareholders	191	-	-	-	(94)	134	**40**	**40**
Closing balance as at 31 December 2021 (balance as at 1 January 2022)	**18**	**1,048,726**	**4,600,754**	**1,332**	**230,584**	**(4,402,783)**	**1,478,613**	**1,478,613**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" Stefano Burani

Acting Chief accountant
JSC "PRAVEX BANK" G.V. Yurchenko

DATE: 23 February 2022

Note 1. Information about the Bank

Full name of the Bank	Joint-Stock Company "PRAVEX BANK"
Short name of the Bank	JSC "PRAVEX BANK"
Location	9/2 Klovskyi Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of incorporation	Private Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. 10121 Italy, Turin, Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	INTESA SANPAOLO S.p.A. (Italy) owns 100% of the Bank's share capital
Reporting period	From 1 January to 31 December 2021
Reporting currency and measurement unit	UAH '000

PRAVEX BANK JSC (hereinafter referred to as the Bank) is a universal financial institution providing the whole range of banking services all over the territory of Ukraine. Due to well-developed network, Pravex Bank is presented in all parts of our country. Together with the impeccable 28-year history of successful activity the Bank became one of the most famous bank brands of Ukraine.

PRAVEX BANK JSC is a part of the Intesa Sanpaolo Group, one of the leading banking groups in Europe and a leader in all spheres of Italian business.

The Bank is constantly improving its work, raising the standards of banking services and becoming better for its clients and partners. Thanks to new capabilities and higher risk-management standards and technologies, we can make we can make an important breakthrough on the whole. Reliability and stability, proper development strategy and high customer service standards allow the Bank to look confidently into the future and implement large-scale plans of the Bank's dynamic development.

The Bank adheres to the strategy of growth and is focused on creating lasting and strong economic, financial, social and environmental pillars, which must be based on the trust of all our partners and based on own values.

Note 2. Economic and operational environment of the Bank

The Bank operates in Ukraine. Ukrainian economy is the one with the peculiarities of a developing market.

By the end of 2021, the Ukrainian economy was significantly affected by the negative impact of the escalation of the conflict with Russia, the sharp increase in prices for energy and the spread of a new strain of coronavirus. Together, these factors worsened the economic outlook and led to a deterioration of the investment climate in Ukraine. Therefore, the conditions for obtaining financing for the state and private sectors on the foreign markets have deteriorated.

Throughout the year the economy was recovering, but less than expected, which was due to the lack of investment, the high cost of energy consumption and deterioration of epidemiological situation in the country as a result of new strains of coronavirus, notwithstanding the active vaccination. At the same time, the economic growth was supported by a high consumer income, which was ensured by a significant growth rate of income of the population. High consumer spending and global proinflationary factors, such as commodity prices, led to a severalfold increase in consumer prices. The central banks of most developing economies responded to these changes, as well as the National

Bank of Ukraine (NBU), which raised its interest rate several times during the reporting year, starting from 6.0% to 9.0%.

Favorable price conditions, high domestic income and a general decrease in the level of interest rates created a significant income of the business for loans, and starting from the second quarter of the reporting year the growth in the volume of credit portfolios in the corporate and mortgage segments significantly accelerated. The growth rate of consumer loans is returning to pre-crisis levels.

Since the beginning of the reporting year, the banking sector has been actively receiving funds on deposit accounts of banks in national currency, mainly due to the increase in on demand funds, which provided for an adequate level of funding for further lending.

Throughout the fiscal year, long-term state bonds (OVDP) revenues increased due to the significant demands of the Ukrainian government to finance budget deficits and higher inflationary expectations.

In December the currency market was mostly balanced. This was due to an increase in export earnings, especially by agribusiness companies, and a net supply of foreign currency in cash. At the same time, maintaining geopolitical pressure had a negative impact on the expectations of market participants. The National Bank of Ukraine has been both selling and buying foreign currency during the month in order to smooth out the turbulent market fluctuations.

In 2020, the Ukrainian government and the International Monetary Fund (IMF) reached an agreement on a new three-year Extended Funding Facility (EFF) programme for 4 billion Special Drawing Rights (SDR), - about USD 5.5 billion. In June 2020, Ukraine received the first tranche of USD 2.1 billion, which was directed to mitigate the effects of the coronavirus pandemic and ensure macrofinancial stability. In November of 2021, Ukraine received the second tranche of US 700 million to help the country overcome the economic and health crisis caused by the COVID-19 pandemic. At the same time, the IMF extended the program until June 2022.

Throughout the 3rd quarter, international rating agency Fitch Ratings affirmed Ukraine's long-term foreign currency issuer default rating at 'B' and revised its outlook from stable to positive. Fitch Ratings upgraded the outlook as a result of the relative strength of Ukraine's financial metrics to the shock caused by the pandemic and the expected decline in the country's fiscal deficit to 57% of GDP in 2021, thanks to the state budget fullfillment and recovery of the Ukrainian economy.

Although management believes that it is taking appropriate measures to support the Bank's stable operations in the current circumstances, but such as the worsening of global economic crisis and pandemic, the volatility of the national currency exchange rate and its subsequent devaluation may adversely affect performance and financial condition of the Bank, the nature and consequences of which are currently impossible to determine.

These financial statements reflect the current assessment by management of the impact of operating environment in Ukraine on the Bank's activities and financial position. Future developments in operating environment may differ from management estimates.

Note 3. Basis for preparation

These financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter - "IFRS") and requirements of the Law of Ukraine "On Accounting and Financial Statements in Ukraine" №996-XIV of June 16, 1999 on the preparation of financial statements (with amendments) (hereinafter referred to as the Law on Financial Statements).

These financial statements have been prepared under the historical cost convention, except for the initial recognition of financial instruments based on fair value, the subsequent appraisal of buildings at revalued cost and derivative financial instruments, financial assets at fair value through other comprehensive income at fair value.

Estimation uncertainty

The preparation of financial statements in accordance with IFRS requires the management to develop judgements, estimates and assumptions that affect the application of accounting policies. Actual results may differ from those estimates.

The estimates and related assumptions are reviewed on an ongoing basis. Changes to the estimates are recognised in the period in which the estimates are revised and in all subsequent periods. Further information on estimates is disclosed in Note 4.2 Critical Accounting Judgements and Estimates.

Impact of the COVID-19 pandemic

In March 2020, the rapid spread of the coronavirus pandemic and restrictions imposed to combat it shaped the global commodity and financial markets. The deterioration of the situation on the global financial and commodity markets coupled with growing uncertainty on the domestic market led to increased turbulence on the currency market of Ukraine and its partner countries. The Ukrainian government introduced restrictions on business and social activities in March 2020. The situation with the pandemic has also had a negative impact on Ukraine's foreign trade, making it difficult to obtain funding and leading to further devaluation of the national currency against major currencies.

The Bank's key management takes all necessary measures to ensure continuous operation of the Bank and maintain a sufficient level of liquidity in a pandemic. Much of the personnel was shifted to work from home with remote access. However, as the Bank's operational activities cannot be fully carried out due to remote access, the Bank's management has implemented all necessary actions to protect personnel from coronavirus infection. Given the above measures and the Bank's current operating and financial results, as well as currently available publicly available information, the Bank does not expect a significant negative impact of the coronavirus pandemic on the Bank's financial position and financial performance in the short term. However, management cannot exclude the possibility that prolonged self-isolation, further strengthening of infection prevention measures or adverse effects of such measures on economic conditions may have a negative impact on the Bank's operations in the medium and long term. In addition, the Bank analyzes possible adverse scenarios, identifies possible risks, which may affect the financial statements, and is prepared to adjust its operational plans accordingly. Management continues to closely monitor developments and will take the necessary measures to mitigate the effects of possible adverse events and circumstances as they arise.

The specifi impact of the pandemic on the financial statements is disclosed in the notes 7.1 and 23 to these financial statements.

Note 4. Accounting policies of JSC "PRAVEX BANK" for the year ended 31 December 2021

4.1. Basis of measurement

The Bank uses estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amount of assets and liabilities within the next financial year. Such estimates and judgments are based on information available to the Bank's management, past experience and other factors, including expectations of future events that are considered reasonable in the circumstances. In addition to judgments that involve accounting estimates, the Bank's management also uses professional judgment in applying its accounting policies.

Information on the criteria for the recognition and measurement of assets and liabilities and income and expenses is set out below in the following sections of this note.

4.2. Critical accounting judgements and estimates

The preparation of financial statements requires the management to apply judgements, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of profit or loss and other comprehensive income, as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgements, often based on historical experience, that are used to develop reasonable assumptions when assessing results. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

The management is to apply its subjective estimates regarding the following:

- estimate of expected losses on loans and other financial assets;
- estimates and assumptions about the possibility of realization of deferred tax assets.

The Bank recognises allowance for expected credit losses (ECL) on such financial instruments that are not measured at fair value through profit or loss (FVTPL):

- financial assets that are debt instruments;
- accounts receivable;
- financial guarantee contracts issued;
- loan commitments issued.

The Bank recognises expected credit loss allowances at an amount equal to lifetime ECLs, except for those instruments, for which the allowance amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

Should actual repayments be less than the management's estimates, the Bank would be required to record additional impairment expense.

4.3. Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Interest Rate Benchmark Reform – Phase 2 **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR) reform Phase 2.**

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest

Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Bank applied the practical expedients provided by the amendments. The Bank has applied the simplifications of a practical nature provided for in these amendments.

COVID-19-Related Rent Concessions beyond 30 June 2021 **Amendments to IFRS 16**

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

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank was granted lease concessions related to the COVID-19 pandemic, and the Bank applied practical simplifications during the period.

Reclassifications

In 2021, in accordance with the Law on FinancialStatements, the Bank submitted for the first time financial statements based on taxonomy according to international standards in a single electronic format for previous reporting periods. The unified electronic format for Ukrainian banks is determined by the National Bank of Ukraine.

As a result of this submission, the Bank has revised the format of presentation of information in these financial statements and reclassified the comparative information accordingly to bring them in line with the unified electronic format of data submission.

31 December 2021 and for the year then ended as reported		***31 December 2020 and for the year then ended as reclassified***		***Reclassifi-cations***
Item	***Amount***	***Item***	***Amount***	
Statement of Financial Position				
				(in thousands of Ukrainian hryvnias)
Property, plant and equipment and intangible assets	371,211	Intangible assets other than goodwill	132,426	(238,785)
Right-of-use assets	46,372	Fixed assets	285,157	238,785
Provisions for liabilities	17,874	Provisions for credit related commitments and financial guarantee contracts	15,944	(1,930)
		Other provisions	1,930	1,930
Statement of profit or loss				
Net (increase)/decrease in provisions for impairment of loans and advances to customers, and to banks	(9,300)	Impairment gains and reversals of impairment losses (Impairment losses),	(14,105)	(4,805)

31 December 2021 and for the year then ended as reported		***31 December 2020 and for the year then ended as reclassified***		***Reclassifi-cations***
Item	***Amount***	***Item***	***Amount***	
Statement of Financial Position				
Net (increase)/decrease in provisions for impairment of other financial and non-financial assets	123	determined in accordance with IFRS 9	-	(123)
Net (loss) from increase in provisions for liabilities	(4,681)		-	4,681
Other profits	37,835		38,082	247
Statement of cash flows				
Net decriese (increase) in other financial assets	24,841	Net (increase) decrease in other financial assets	23,581	(1,260)
		Net (increase) decrease in other non-financial assets	1,260	1,260
Net decrease (increase) in other financial liabilities	274 480	Net (incarease) decrease in other financial liabilities	(37 194)	(311 674)
		Net (increase) decrease in other non-financial liabilities	11,674	11,674
		Net increase (decrease) in amounts due to banks	300,000	300,000

31 December 2019 and for the year then ended as reported		***31 December 2019 and for the year then ended as reclassified***		***Reclassi-fications***
Item	***Amount***	***Item***	***Amount***	
Statement of Financial Position				
Property, plant and equipment and intangible assets	333,497	Intangible assets other than goodwill	102,773	(230,724)
Right-of-use assets	52,828	Fixed assets	283,552	230,724
Provisions for liabilities	11,510	Provisions for credit related commitments and financial guarantee contracts	3,335	(8,175)
		Other provisions	8,175	8,175

4.4. Initial recognition of financial instruments

A financial instrument represents any contract under which a financial asset in one entity and a financial liability or equity instrument in another entity arise at the same time.

The Bank recognises financial assets and liabilities in accounting, when the Bank becomes a party to the contract.

On initial recognition, a financial asset is classified as measured at amortised cost (AC) or at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL).

Financial assets are not reclassified after their initial recognition, unless the Bank changes its business model for managing financial assets in the period after the change. The Bank may reclassify financial assets only if it has changed its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's key management as a result of external or internal changes and must be significant to the Bank's operations and evident to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

4.5.1. Business model assessment and characteristics of contractual cash flows

The Bank classifies and measures financial assets based on the business model that it uses for managing those assets and their contractual cash flow characteristics.

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

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

In assessing whether the contractual cash flows are exclusively payments of the principal amount and interest on the outstanding portion of the principal amount ("SPPI criterion"), the contractual terms of the financial instrument are analyzed. An estimate of whether a financial asset includes any contractual terms that may change the timing or amount of the contractual cash flows so that the financial asset will not meet the analyzed requirement. During the assessment are analyzed:

- contingent events that may change the timing or amount of cash flows (for example, currency);
- conditions that have the effect of leverage (leverage), a condition of the contract that increases the variability of the contractual cash flows;
- conditions for early repayment and extension of validity;
- conditions that limit the Bank's claims on cash flows from contingent assets - for example, non-recourse financial assets;

- conditions that cause changes in the reimbursement of the time value of money - for example, periodic review of interest rates.

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified as at fair value through profit or loss, when:

- it is maintained within the business model, the purpose of which is to retain assets to obtain contractual cash flows,

- its contractual terms provide for the receipt of cash flows on these dates, which are exclusively payments on account of the principal amount and interest on the outstanding part of the principal amount ("positive SPPI test").

A financial asset is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not classified at the Bank's discretion as at fair value through profit or loss when:

- it is maintained within the business model, the goal of which is achieved both by obtaining the contractual cash flows and by selling financial assets, and

- its contractual terms provide for the occurrence in a timely manner of cash flows, which are the payment of only the principal amount and interest on the outstanding part of the principal amount of the debt.

All financial assets not qualifying for measurement at AC or FVTOCI as described above are measured at FVTPL.

The Bank regularly evaluates the business model that it uses to manage financial assets for generating cash flows. The Bank, at the date of the business model assessment, takes into account all objective evidence (factors) available on this date.

Financial instruments are initially recognized at fair value, including transaction costs that are directly attributable to the initial recognition of a financial instrument (commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc), except for financial instruments at FVTPL.

4.5.2. Expected credit loss allowance

The Bank recognises provision for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets measured at AC;
- financial assets measured at FVTOCI;
- credit related commitments and financial guarantees;

Expected credit losses are recognised at an amount equal to either 12-month ECLs or lifetime ECLs.

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime ECLs of the instrument are expected losses that arise from all possible default events over the expected life of the financial instrument.

The impairment requirements of IFRS 9 are complex and require the use of judgements and estimates, particularly with regard to:

- assessing whether the credit risk of a financial instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

4.5.3. Assessment of expected credit losses

Expected credit losses are identified as an estimate of credit losses weighted on the probability of default (PD). They are measured as follows:

- *for financial assets:* as the present value of all expected cash shortfalls (ie the difference between the cash flows of the Bank under the agreement and the cash flows the Bank expects to receive) discounted at the original effective interest rate or the credit risk-adjusted interest rate interest on purchased or originated credit -impaired financial assets);
- *for the utulised portion of credit related commitments:* as the present value of the difference between the contractual cash flows of the Bank under the agreement, if the holder of the credit commitment exercises its right to obtain the credit, and the cash flows that the Bank expects to receive , if this loan is issued; and
- *for financial guarantee contracts:* the present value of expected payments to reimburse the holder for credit losses that it incurs less any amounts that the Bank expects to recover.

4.5.4 Credit risk grades

The Bank allocates each exposure subject to credit risk by stages based on a variety of data that is determined to be predictive of a risk of default and by applying expert judgements in respect of a loan . The Bank uses these credit risk stages in identifying significant increases in credit risk under IFRS 9. Credit risk stages are determined using qualitative and quantitative factors that indicate a risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk stages are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk stage 1 and 2 is smaller than the difference between credit risk stage 2 and 3.

Each exposure is allocated to a credit risk stage at initial recognition based on available information about the borrower and classified as stage 1 (except for purchased or originated credit-impaired assets, which is classified to a separate stage).

Exposures subject to credit risk is under ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

The classification / determination of financial assets for the purpose of estimating the provision for expected credit losses is carried out at the following stages:

• financial assets without significant increase in credit risk from the date of initial recognition are classified in stage 1 – provisions are equal to the expected credit losses for 12 months;

• financial assets with a significant increase in credit risk from the date of initial recognition are classified in stage 2 - provisions are equal to the expected credit losses for the entire period;

• financial assets that have objective signs of impairment at the reporting date are classified in stage 3 – provisions are equal to the expected credit losses for the entire period.

Significant increase in credit risk

In determining whether there is a significant increase in credit risk on a financial asset since its initial recognition, the Bank considers reasonable and verifiable information that is relevant and available without undue expense or effort, including both quantitative and qualitative information and analysis based on on the historical experience of the Bank, expert monetary assessment of loan quality and forecast information.

The Bank first ascertains whether there is a significant increase in credit risk for credit risk positions by comparing the probability of default for the remaining life of the financial instrument as at the reporting date and the probability of default for the remaining period determined at initial recognition.

The Bank has developed a valuation methodology that includes both quantitative and qualitative information to determine the significant increase in credit risk on a particular financial asset since its initial recognition. This methodology is in line with the Bank's internal credit risk management process. The criteria for determining a significant increase in credit risk vary depending on the portfolio and include a "limiter" overdue.

In certain instances, using the experienced credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank presumptively considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

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

- the application of criteria allow identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECLs measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Expected credit losses are estimates of credit losses weighted by the probability of default risk (ie the present value of all outstanding amounts of cash, discounted at the effective interest rate). Outstanding amounts of cash are the difference between the cash flows to be paid to the Bank under the agreement and the cash flows that the Bank expects to receive.

- Expected credit losses are determined based on three scenarios: the most probable, the worst and the best, which are taken into account in the assessment by indicators determined by PD and LGD for each scenario.

- In this case, PD (Probability of Default): determines the probability of default of the counterparty, and;

- LGD (Loss Given Default) - the percentage of risk loss in the event of default of the counterparty.or loss.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising the collateral (if any is held); or

- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due on the next day when the customer has breached an advised limit or been advised of a smaller limit than the current amount outstanding.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on the data generated internally and obtained from external sources.

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

Generating the term structure of the probability of default

Credit risk stages are used as a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change with the passage of time.

This analysis includes the identification and calibration of relationships between changes in PD and changes in key macro-economic factors, as well as a detailed analysis of the effect that certain other factors (e.g. forbearance experience) have on the risk of default. For most exposures, key macro-economic indicator will be GDP growth.

4.6. Derecognition of financial instruments

The Bank derecognises a financial asset or group of financial assets if:

1) the term of the rights to cash flows from the financial asset, determined by the terms of the agreement, expires;

2) the transfer of a financial asset meets the criteria for derecognition.

The Bank transfers a financial asset if one of the following conditions is met:

1) the Bank transfers the rights to receive cash flows from the financial asset provided for in the agreement;

2) the Bank retains the rights to receive cash flows from the financial asset provided for in the transfer agreement, but undertakes to pay cash flows to one or more recipients under the agreement, which meets the following conditions:

- the Bank has no obligation to pay amounts to final customers until the time of receipt of equivalent amounts from the original asset;

- the terms of the agreement prohibit the Bank from selling or pledging the original financial asset, except for its transfer to final recipients, as security for the obligation to pay cash flows;

- the Bank is obliged to transfer any cash flows that it receives on behalf of the final recipients, without significant delay. In addition, the Bank may not reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7, statement of cash flows) for a short maturity from the date of collection to the date of their required transfer to final recipients. Interest on such investments is transferred to the final recipients);

3) there was a write-off against the provision.

Financial assets are derecognised only when a sale results in a transfer of all the risks and rewards related to assets. Conversely, if a significant portion of risks and rewards related to the sold financial assets is retained, they continue to be recognised as assets even if the ownership of these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognised when control over assets is lost. Alternatively, when control is retained at least partially, the Bank continues to recognise assets to the extent of its continuing involvement. The extent of the Bank's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset and to changes in respective cash flows. Finally, the transferred financial assets are derecognised, if the Bank retains contractual rights to receive cash flows from an asset, but simultaneously assumes an obligation to pay the respective cash flows, and only the respective cash flows, to third parties. The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

Loans and debt securities are written off (either partially or in full) when there is no reasonable prospects of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the outstanding amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

The procedure for recognizing a debt as “bad debt” and writing it off against the provision is determined by internal regulations.

The decision to classify the debt as "bad debt" and write off bad debts against provision is carried out in accordance with the decision of the Bank's Management Board (in accordance with the delegation authorities determined by the Supervisory Board) or on the basis of the Supervisory Board's decision to write off debt in an amount exceeding one percent of the regulatory capital of the Bank for the debtor / counterparty - an individual, three percent - for the debtor / counterparty - a legal entity.

After writing off bad debts, the Bank accounts them on off-balance sheet accounts within the period specified by the legislation of Ukraine, if there are legal grounds to continue measures to recover such debt until its full repayment or application of all legislative measures to recover debt.

The Bank determines in internal regulations the right to decide not to apply measures to recover the debt of the debtor / counterparty, if the Bank has formed a judgment that the application of such measures is economically impractical. In this case, the debt after the write-off is not accounted in off-balance sheet accounts.

4.7. Modifications

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered a modification if they result from existing contractual terms, e.g. changes in interest rates. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or exchanged financial asset are substantially different. The quantitative and qualitative evaluation of whether the modification is substantial takes into account qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. If cash flows differ significantly, then such a modification is considered significant.

Additionally, the Bank concludes that the modification is substantial based on the following qualitative factors:

- change in the currency of the financial asset;
- change in collateral or other credit enhancement;
- change in the terms of the financial asset resulting in a non-compliance with the SPPI test criterion.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining life of the modified financial asset. If such a modification occurred due to the borrower's financial difficulties, then the gain or loss is presented within impairment losses. In other cases, it is presented within interest income calculated using the effective interest method.

For loans that envisage the borrower's right to prepay at nominal value without significant penalties, the Bank takes into account the interest rate adjusted to the market level in response to the changes in market conditions similarly to the accounting treatment of floating-rate instruments, i.e. the interest rate is revised prospectively.

As part of the credit-risk management activities, the Bank renegotiates loans to customers experiencing financial difficulties (referred to as 'forbearance activities'). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the evaluation of modification takes place. As a result, in all likelihood, the contractual cash flows recognised for the original financial asset as at the point of modification will be equivalent to the new modified contractual cash flows. If, based on the quantitative evaluation, the Bank concludes that the modification of financial assets as part of the Bank's forbearance policy is not substantial, the Bank performs a qualitative evaluation of whether the modification is substantial.

The Bank derecognises a financial liability when its terms are modified in such a way that the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability, the Bank applies an accounting policy consistent with the approach for adjusting the financial asset's gross carrying amount when the financial asset is not derecognised as a result of modification, i.a. the Bank recognises any adjustment to the financial liability's amortised cost arising from such a modification (or exchange) in profit or loss at the date of modification (or exchange).

The quantitative and qualitative evaluation of whether the modification is substantial takes into account qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial based on the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the purposes of quantitative assessment, the terms are considered substantially different if the present value of the cash flows under the new terms, including fees paid net of any fees received, discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the profit or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4.8. Cash and cash equivalents

The Bank classified cash on hand, balances on accounts in the National Bank of Ukraine, correspondent accounts and overnight deposits in other banks as cash and cash equivalents. The Bank does not recognise mandatory reserves within cash and cash equivalents for the purposes of the statement of financial position and the statement of cash flows if there are restrictions on their use.

4.9. Loans and advances to customers

Loans are measured by the Bank at amortised cost only if both of the following conditions are met:

1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans are initially recognised on the underlying contract date based on the fair value of the financial instrument that equals to the amount granted, including expenses/income that are directly attributable to a single loan and can be determined when originated, even if paid at a later date.

Subsequent to initial recognition loans are carried at amortised cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortisation calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. the principal amount and interest, to the amount of the cash disbursed, including expenses/income attributable to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.10. Investments in securities at fair value through other comprehensive income

The Bank recognises a financial asset at fair value through other comprehensive income if both of the following requirements are met:

1) a financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

2) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets at FVTOCI (debt securities and shares,) are initially recognised at the settlement date. Assets are initially recognised at fair value taking into account transaction costs and fees directly attributable to the instrument.

Subsequent to the initial recognition, financial assets are carried at fair value. Gains and losses from the change in fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or when a loss is recognised, accumulated gain or loss is reclassified to profit or loss (statement of profit or loss).

For determination of the fair value of financial instruments quoted in an active market, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and financial derivatives that have equity instrument as an underlying asset whose fair value cannot be determined reliably are recognised at cost.

4.11. Investments in securities at amortised cost

The Bank measures investment at amortised cost if both of the following conditions are met:

1) a financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows (‘held to collect model’);
2) contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (‘positive SPPI test’).

4.12. Financial instruments at fair value through profit or loss

All other debt financial assets are measured by the Bank at fair value through profit or loss if such financial assets do not meet the criteria of subsequent measurement at amortised cost or at fair value through other comprehensive income.

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or
- upon initial recognition, designated as at fair value through profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

The management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of the fair value through profit or loss category. Financial assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss or out of the fair value through other comprehensive income category, if the Bank has an intention and ability to hold them in the near future or until maturity. Other financial instruments may be reclassified out of the fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.13. Property, plant and equipment

Property, plant and equipment represents tangible assets held by the Bank to use in its ordinary activity, to render services, to lease to other parties or to perform administrative function, to the extent that the useful lives of such assets exceed one year (or the operating cycle, if it is exceed one year).

Property, plant and equipment are initially recognised at cost that includes any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property, plant and equipment, other than properties of the Bank, using historical cost method.

Assets accounted for at historical cost after initial recognition are not subject to any revaluations.

The Bank measures its properties using the revalued cost method. The Bank remeasures any properties carried at revalued amount to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs a revaluation of all properties of the fixed asset group to which the property belongs on the same date.

To determine the fair values of its properties, the Bank engages an independent expert appraisal as at the balance sheet date. It is mandatory that an independent expert appraisal is carried out by an independent appraiser as at the end of the reporting year before the annual report preparation.

Subsequent revaluations of a group of property, plant and equipment revalued in previous periods are made with sufficient regularity to ensure that their residual value as at the balance sheet date does not differ materially from their fair value.

A revaluation surplus of buildings is recognised directly in other comprehensive income, except to the extent it offsets a previous deficit on the same asset recognised in profit or loss. A revaluation deficit on buildings is recognised in profit or loss, except to the extent that it offsets a previous surplus recognised directly in other comprehensive income.

In recognising a revaluation surplus/deficit, the historical (revalued) amount of property, plant and equipment is decreased by accumulated depreciation, and the carrying amount calculated on a net basis is revalued to the fair value. Based on this method, the revalued amount of property, plant and equipment is equal to its fair value, and the accumulated depreciation amounts to zero.

The costs of improvement of property, plant and equipment are recognised on capital investments accounts.

Useful lives and applicable depreciation rates are reviewed at each year-end. The below table presents useful lives of certain categories of property, plant and equipment for 2021:

Description	Useful life, years
Buildings and constructions	33.33
Machinery and equipment	4-15
Vehicles	10
Fixtures and fittings (furniture)	8.33
Other PP&E	12

Property, plant and equipment is depreciated on a straight-line basis.

All non-current assets (except for land and construction in progress) are subject to depreciation.

Expenditures incurred for leasehold improvements are depreciated over the period starting from the month following the month when the lease is complete of improvements and ending in the last month of the lease term, or, if the economic life of a leasehold improvement is shorter than the lease, depreciation is charged over the useful life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

- the date of transferring the underlying asset to non-current assets held-for-sale; and
- the date of derecognition of the underlying asset.

Items of property and equipment are derecognised in case of their disposal as a result of sale, free of charge transfer, liquidation, etc.

4.14. Intangible assets

The Bank classified the licenses to use computer software and the acquired computer software within intangible assets.

Acquired intangible assets are measured at cost (historical/actual cost) that includes the actual costs incurred to acquire and bring specific items to the condition necessary for them to be capable of operating in the manner intended.

Subsequently, the Bank measures intangible assets at historical cost (at cost), less accumulated amortisation and accumulated impairment losses.

The straight-line method is used to calculate depreciation. Revision of useful lives and amortization of intangible assets is carried out in case of reasonable economic necessity and at the end of each year.

Useful lives of intangible assets are specified below:

Description	Useful life, years
Software packages and solutions	1 - 10
Software licences	1 - 10

Amortisation is charged on a monthly basis applying the rates calculated by reference to the useful lives of each individual intangible asset.

4.15. Leases

A lease or lease component is recognised as a contract that is, or contains, a lease if it conveys to the Bank the right to use the asset (the underlying asset) for a period of time in exchange for consideration, when the following criteria are met:

- the leased asset is identifiable;
- the rights to obtain all economic benefits from use of the asset are conveyed to the Bank;
- the right to order others to operate the asset in a manner the Bank determines for a certain period in exchange for consideration is conveyed to the Bank.

The Bank applies simplified method of accounting for the following leases:

- leases with a lease term of 12 months or less;
- leases where the underlying asset's value is less than EUR 5,000.00 (determined at the NBU exchange rate at recognition date)
- perpetual leases;
- gratuitous leases;
- non-identifiable leases.

The Bank recognises lease payments as expenses on a straight-line basis over the lease term for leases falling within the recognition exemption.

The decision to apply the exemption for low-value assets is made for each contract separately.

Software licence and other licensing agreements are not recognised as leases. The Bank recognises these assets as intangible assets.

If a lease arrangement is recognised as a lease, at the commencement date, the Bank recognises:

- right-of-use assets;
- lease liabilities.

A right-of-use asset is measured at cost that includes:

- the amount of the initial measurement of the lease liability
- any lease payments made at the commencement date, less any lease incentives received
- initial direct costs;
- an estimate of costs to be incurred in dismantling or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial direct costs include expenses that the Bank incurred from:

- sales commissions,
- notary services,
- advisory services,
- collateral,
- lessor's consideration;
- other costs.

Initial direct costs exclude:

- general overhead costs;
- costs attributed to receiving quotes in respect of potential leases;
- repairs of the assets leased.

Lease liabilities are carried at present value of lease payments net of VAT and are not paid at the measurement date. The liability amount is determined by discounting future payments using the interest rate implicit in the lease that can be readily determined.

If the interest rate cannot be determined from conditions of a lease, the Bank uses incremental borrowing rate. Incremental borrowing rte is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any incentives receivable;
- variable lease payments that depend on an index or a rate;
- residual value guarantee;
- exercise price of a purchase option if there is a reasonable certainty that the Bank will exercise that option;
- penalties for terminating the lease, if the lease term reflects the Bank exercising an option to terminate the lease.

If the contractual terms require the lease payment to be indexed to an inflation index, future payments following after the initial recognition of the liability are remeasured on a monthly basis using the current inflation index.

To determine the lease and the lease term as the non-cancellable period of a lease, the Bank assesses the lease term and analyses the length of the non-cancellable period of a lease, as well as the Bank's right to exercise an option to extend or terminate the lease.

The lease term is assessed at the commencement date by the Bank’s structural units responsible for managing assets and/or initiating lease arrangements.
The Bank revises the lease term if there is a change in the non-cancellable period of a lease.
Right-of-use assets are initially recognised at cost.

After the initial recognition of right-of-use assets, the Bank applies the cost model by reference to accumulated amortisation using the straight-line method.

The Bank depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

If the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the cost of the right-of-use asset reflects that the Bank will exercise a purchase option, the Bank shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

Lease modification

The Bank accounts for a new lease if the modification increases the scope of the lease by adding more underlying assets or increasing the consideration for the lease by an amount commensurate with the stand-alone price for the increase in scope.

For a modification that does not result in an obligation to account for the lease as a separate lease, the features of the existing asset(s) are adjusted simultaneously with adjustments to the amount of the asset and liability (remeasurement).

The amount of a liability is measured, recalculated and the difference between the new and existing balance of the liability is remeasured through the carrying amount of an asset or gain/loss if one of the following conditions is met:

- for the carrying amount of an asset, if:
  - there is a change in the lease term;
  - there is a recognition of an option/change in cost/termination of the lease;
  - there is a change in estimates of residual value guarantees;
  - there is a change in the amount of variable lease payments that depend on an index and are attributable to future periods.
- for the gain or loss if:
  - there is a change in the amount of variable lease payments that depend on an index and are attributable to the current month;
  - there is a change in the amount of variable lease payments that do not depend on an index and are attributable to the current month.

If the amount of a write-down is recognised as an adjustment of the right-of-use asset, at which point the carrying amount of the asset is reduced to zero, then the residual value of the remeasured liabilities is attributed to gains/losses.

4.16. Investment property

Investment property is property held either to earn rental income or for capital appreciation, or both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with subsequent changes in fair value recognised within profit or loss.

If the use of the investment property changes and it is reclassified to property, plant and and equipment, the fair value of the investment property as at the reclassification date becomes its acquisition cost for its subsequent accounting.

4.17. Non-current assets held for sale

The Bank recognises non-current assets as held-for-sale, if their carrying amount is recoverable from their sale, rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable as at the date when the asset is recognised.

Non-current assets held for sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held for sale are not depreciated.

4.18. Financial derivatives

A derivative is a financial instrument meeting all three of the following criteria:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

(b) it requires no initial net investments or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) it is settled at a future date.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised as expenses at the time of initial recognition.

Revaluation of derivative financial instruments, which are exchange instruments, is carried out by the Bank based on the results of each exchange day (trading session) at the quoted exchange price (settlement price) determined by the exchange.

Revaluation of derivatives, which are OTC instruments, is carried out by the Bank in the event of a change in their fair value. If there is no market, fair value measurement methods are used.Revaluation of forward contracts and the forward part of swap contracts is performed at the forward rate monthly on the last working day of the month and on the settlement date (repayment) of the forward contract at the NBU rate.

Transactions “TOD”, “TOM”, “SPOT” are accounted “on the settlement date”. On off-balance sheet accounts, liabilities / currency sale/purchase liabilities are accounted on the transaction date (sale/purchase agreement date). Revaluation of assets / liabilities is performed generally within revaluation of assets and liabilities in foreign currency. Revaluation of claims / liabilities on derivative financial instruments on off-balance sheet accounts is not performed.

The Bank does not separate an embedded derivative, but accounts for it in a combined financial instrument that is generally classified as a financial instrument measured at fair value through profit or loss.

4.19. Other borrowed funds

Other borrowed funds are recorded when money or other assets are advanced to the Bank by counterparty banks or other financing institutions at amortised cost using effective interest rate method. Gains and losses are recognised within profit or loss at derecognition or through amortisation.

4.20. Provisions for liabilities

The Bank recognises provisions for liabilities and contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising from lawsuits claiming reimbursement of losses in favour of third parties. The Bank recognises the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties' lawsuits.

The Bank recognises a provision for liabilities only to the extent all three of the following conditions are met:

- The Bank has a present (legal or constructive) debt as a result of past events;
- it is probable that an outflow of economic benefits will be required to settle the debt;
- the amount of the debt can be estimated reliably.

4.21. Personnel expense

Costs incurred to pay for the labour and the single contribution for mandatory state social insurance, calculated as a percentage of the employee's current salary before tax, are recognised in the period in which they were incurred. According to the Ukrainian law, the Bank transfers the single contribution for the statutory public social insurance to the state budget of Ukraine. Costs incurred to pay the unified contribution for the statutory public social insurance are recognised in benefit costs. Upon their retirement, employees receive post-employment benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank recognises provisions for unused vacations. At the same time, provisions for social contributions is created, which is accrued in the amount of provisions for vacation pay.

4.22. Income tax

Income tax expenses (income) consist of current and deferred taxes. Such expenses (income) from income tax are recognized in profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity. In such cases, they are recognized in other comprehensive income or directly in equity.

Expenses from the current income tax are determined in accordance with the Tax Code of Ukraine.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the amount of income tax determined in the reporting period in accordance with the Tax Code of Ukraine.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed/used, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognised within assets in the statement of financial position under the caption “Deferred tax assets”. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognised in the statement of financial position under the caption “Deferred tax liabilities”.

The Bank recognizes previously unrecognized deferred tax assets at each reporting date if it is probable that future taxable profits will be available against which the deferred tax asset can be recovered.

If necessary, the Bank reviews the amount of income tax expense on the reporting date, taking into account previously recognized deferred tax assets and deferred tax liabilities.

4.23. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank’s shareholders in the amount prescribed by the Articles of Association.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank’s own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.24. Recognition of income and expenses

Income and expenses are recognized on an accrual basis, i.e. they are recognised in the period to which they are attributable.

Revenue from services rendered is recognised by reference to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognised using the effective interest rates in proportion to the time and amount of the underlying asset (liability).

Interest income and expense are recognised in the statement of profit or loss using the effective interest method. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the fair value of the financial liability.

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

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the fair value of the liability.

However, for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If a financial asset is no longer credit-impaired, the interest income is calculated based on the gross carrying amount.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expense presented in the statement of profit or loss:

- interest income and interest expense on financial assets and financial liabilities measured at fair value calculated using the effective interest method;
- interest income on debt instruments measured at FVTOCI calculated using the effective interest method;

Commissions that are not included in the cost of loan (e.g. commissions for cash and settlement services, etc.), are recognised within commission income.

Dividends on variable-income securities are recognised as income for the period during their holding.

4.25. Foreign currencies

Items of assets and liabilities, income and expenses arising from transactions in foreign currencies and precious metals are recognised in a UAH equivalent at the official NBU exchange rate for foreign currencies and banking metals ruling at the recognition date.

Income and expenses on items denominated in foreign currencies are translated into the Ukrainian hryvnias at the NBU exchange rate ruling at the transaction date. Foreign currency accruals are accounted for at the exchange rate ruling at the accrual date.

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December 2021, the exchange rates of UAH established by the NBU were as follows:

Currency	31 December 2021	31 December 2020
USD	27.28	28.27
EUR	30.92	34.74

All monetary items carried on the balance sheet are retranslated each time when the NBU exchange rate is revised and the results are recognised under the caption “Gains less losses from foreign currency translation” in the statement of profit or loss.

The Bank recognises gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.26. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only to the extent there is a legally enforceable right to offset and there is an intention to realise the asset and settle the liability simultaneously.

4.27. Fair value measurement

Fair value is a market-based measurement, not a measurement specific to an organization or institution. In measuring fair value, the Bank uses assumptions that market participants would use in measuring an asset or liability under current market conditions, including risk assumptions. As a result, the Bank's intention to hold the asset or settle or otherwise settle the obligation is not relevant in measuring fair value.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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

For financial instruments, fair value is determined through the use of quoted prices obtained from an active financial market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account when pricing the transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The valuation techniques include:

- using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;
- using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If any Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets, the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank uses bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;

(ii) implied volatilities; and

(iii) credit spreads.

(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:

(a) the condition or location of the asset;

(b) the extent to which inputs relate to items that are comparable to the asset or liability; and

(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement can result in a fair value measurement being categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

Level 3 inputs are unobservable inputs for the asset or liability.

This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's measurement. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule, other valuation approaches cannot be used.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

4.28. Operating segment information

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker, as far as allocating resources to segments and assessing their financial performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has a centralised management and follows a common lending policy and marketing strategy.

The Bank has no customers generating revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are attributable to Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

4.29. Impairment of non-financial assets

Non-financial assets other than deferred taxes are measured at each reporting date for any indications of impairment. The amount of expected recovery of non-financial assets is the higher of two estimates: their fair value less costs to sell or value in use. In estimating value in use, expected 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. The amount of the expected return on an asset that does not generate cash inflows independently of the proceeds from other assets is determined by the cash-generating unit to which the asset belongs. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.
All impairment losses on non-financial assets are recognized in profit or loss and are reversed only when the estimates used to determine the amount of recoverable amount are reversed. An impairment loss is reversed only 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.
All impairment losses on non-financial assets are recognized in profit or loss and are reversed only when the estimates used to determine the amount of recoverable amount are reversed. An impairment loss is reversed only 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.

Note 5. New and revised standards

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

Amendments to IAS 1*: Classification of Liabilities as Current or Non-current*

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – ***Amendments to IFRS 3***

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Bank.

Onerous Contracts – Costs of Fulfilling a Contract – ***Amendments to IAS 37***

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

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

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

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.The amendments are not expected to have a material impact on the Bank.

Definition of Accounting Estimates - ***Amendments to IAS 8***

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

Disclosure of Accounting Policies - ***Amendments to IAS 1 and IFRS Practice Statement 2***

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

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 reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

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

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 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 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

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

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

These amendments do not apply to the Bank's financial statements.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Cash	257,770	318,750
2	Balances with the National Bank of Ukraine	86,790	78,213
3	**Correspondent accounts with:**	**593,218**	**608,652**
3.1	domestic banks	5,731	3,408
3.2	foreign banks	587,487	605,244
4	Provisions for cash on correspondent accounts with other banks	(39)	(43)
5	**Total cash and cash equivalents**	**937,739**	**1,005,572**

Line 5 in Table 6.1 corresponds to account "Cash and cash equivalents" in the statement of financial position.

As at 31 December 2021, the Bank placed funds on a correspondent account with Intesa Sanpaolo S.p.A. in the amount of UAH 450,146 thousand (2020: JPMORGAN CHASE BANK, N.A. in the amount of UAH 263,622 thousand), which represents a significant concentration.

As at 31 December 2021 and 2020, balances on correspondent accounts were not overdue.

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2021 and for the year then ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(43)	(43)
2	(Increase) in provision for impairment during the year	-	-
3	Foreign exchange differences	4	4
4	**Balance at the end of the period**	**(39)**	**(39)**

Table 6.3. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(28)	(28)
2	(Increase) in provision for impairment during the year	(18)	(18)
3	Foreign exchange differences	3	3
4	**Balance at the end of the period**	**(43)**	**(43)**

Table 6.4. Credit quality analysis of cash and cash equivalents as at 31 December 2021

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Cash**	**Balances with the National Bank of Ukraine**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Impairment Stage 1:	593,218	257,770	86,790	937,778
1.1.	Not overdue	593,218	257,770	86,790	937,778
2	Impairment Stage 3:	-	1,477	-	1,477
2.1	More than 90 days	-	1,477	-	1,477
3	Provision for cash impairment	(39)	(1,477)	-	(1,516)
4	**Total cash and cash equivalents**	593,179	257,770	86,790	937,739

Table 6.5. Credit quality analysis of cash and cash equivalents as at 31 December 2020

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Cash**	**Balances with the National Bank of Ukraine**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Impairment Stage 1:	608,652	318,750	78,213	1,005,615
1.1.	Not overdue	608,652	318,750	78,213	1,005,615
2	Impairment Stage 3:	-	1,497	-	1,497
2.2	More than 90 days	-	1,497	-	1,497
3	Provision for cash impairment	(43)	(1,497)	-	(1,540)
4	**Total cash and cash equivalents**	**608,609**	**318,750**	**78,213**	**1,005,572**

Note 7. Loans and advances to customers

Table 7.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Corporate loans	3,184,830	2,360,871
2	Retail mortgage loans	927,270	297,919
3	Loans to individual entrepreneurs	3	-
4	Retail consumer loans	705,217	485,030
5	Other retail loans	7	145
6	Provision for impairment of loans	(49,055)	(45,650)
7	**Total loans less provisions**	**4,768,272**	**3,098,315**

Line 7 in Table 7.1 corresponds to account “Loans and advances to customers” in the statement of financial position.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2021 would be UAH 47,682 thousand lower/higher (31 December 2020: UAH 30,983 thousand).

Due to the spread of the coronavirus pandemic, at the request of individual customers affected by the economic consequences of quarantine and restrictive measures, the Bank renegotiated the repayment dates of loans and accrued interest. As of the end of the year, the carrying amount of loan agreements which the terms were renegotiated is UAH 10,230 thousand. Recognized losses from the modification of such financial assets amounted to UAH 342 thousand.

Line 7 in Table 7.1 discloses information about loans recognised at amortised cost.

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of borrowers. As at 31 December 2021 and 31 December 2020, loans per 3 and 1 customers account for 15% and 9%, respectively (UAH 751,373 thousand and UAH 300,371 thousand, respectively).

Table 7.2. Analysis of the gross carrying value of loans and advances to customers for 2021

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	**3,129,490**	**3,186**	**11,289**	**3,143,965**
2	Increase in balance during the year	**8,795,739**	**33,416**	**14,934**	**8,844,089**
2.1	Increase in balance due to new loans	8,639,853	-	-	8,639,853
2.2	Decrease (increase) in balance of current outstanding portfolio	106,019	2,160	1,053	109,232
2.3	Transfers from Stage 1	-	30,960	36	30,996
2.4	Transfers from Stage 2	4,480	-	6,457	10,937
2.5	Transfers from Stage 3	1,970	-	6,945	8,915
2.6	Foreign exchange differences	43,417	296	443	44,156
3	Decrease in balance during the year	**(7,146,012)**	**(11,830)**	**(12,885)**	**(7,170,727)**
3.1	Increase in balance due to full repayment of loans	(1,891,145)	(189)	(1,346)	(1,892,680)
3.2	Decrease in the balance of the current portfolio	(5,135,531)	(620)	(2,232)	(5,138,383)
3.3	Bad debt write-offs against the provision	-	-	(76)	(76)
3.4	Transfers from Stage 1	-	(4,480)	(1,970)	(6,450)
3.5	Transfers from Stage 2	(30,960)	-	-	(30,960)
3.6	Transfers from Stage 3	(36)	(6,457)	(6,945)	(13,438)
3.7	Foreign exchange differences	(88,340)	(84)	(316)	(88,740)
4	Balance at the end of the year	**4,779,217**	**24,772**	**13,338**	**4,817,327**

Table 7.3. Analysis of provisions on loans and advances to customers for 2021

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	**35,589**	**735**	**9,326**	**45,650**
2	**Increase in the amount of loan provisions for the period**	**64,164**	**8,602**	**4,818**	**77,584**
2.1	Provision for new loans	53,371	-	-	53,371
2.2	Provision for increase in carrying amount	10,287	3,563	1,055	14,905
2.3	Increasing the provision from the transfers between stages	-	4,908	2,886	7,794
2.3.1	Transfers from Stage 1	-	1,102	-	1,102
2.3.2	Transfers from Stage 2	109	-	3,581	3,690
2.3.3	Transfers from Stage 3	24	-	6,420	6,444
2.4	Interest accrued on impaired loans	-	-	500	500

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
2.5	Foreign exchange differences	506	131	377	1,014
3	**Decrease in the amount of loan provisions for the period**	**(67,476)**	**(4,365)**	**(2,338)**	**(74,179)**
3.1	Decrease of provision as a result of repayments	(8,603)	(102)	(861)	(9,566)
3.2	Decrease in provision due to decrease in the carrying amounts	(57,393)	(2,882)	(784)	(61,059)
3.3	Decrease in provisions because of transfers between stages	(2)	(1,251)	(75)	(1,328)
3.4	Bad debt write-offs against the provision	-	-	(76)	(76)
3.5	Recovery of loans written off against provisions in prior periods	-	-	(1,544)	(1,544)
3.6	Transfers of the rights to receive cash flows from loans	-	-	-	-
3.6.1	Transfers from Stage 1	-	(109)	(24)	(133)
3.6.2	Transfersfrom Stage 2	(1,102)	-	-	(1,102)
3.6.3	Transfersfrom Stage 3	-	(3,581)	(6,420)	(10,001)
3.7	Interest accrued on impaired loans	-	-	-	-
3.8	Foreign exchange differences	(1,478)	(130)	(542)	(2,150)
4	**Balance at the end of the period**	**32,277**	**4,972**	**11,806**	**49,055**

Table 7.4. Analysis of the book value of loans and advances to customers for 2020

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	**1,443,853**	**3,075**	**6,125**	**1,453,053**
2	Increase in balance during the year	**6,550,783**	**11,816**	**13,707**	**6,576,306**
2.1	Increase in balance due to new loans	5,665,040	7	-	5,665,047
2.2	Decrease (increase) in balance of current outstanding portfolio	709,866	196	573	710,635
2.3	Transfers from Stage 1	-	11,527	12	11,539
2.4	Transfers from Stage 2	4,358	-	6,535	10,893
2.5	Transfers from Stage 3	42	-	5,439	5,481
2.6	Foreign exchange differences	171,477	86	1,148	172,711
3	Decrease in balance during the year	**(4,865,146)**	**(11,705)**	**(8,543)**	**(4,885,394)**
3.1	Increase in balance due to full repayment of loans	(1,056,606)	(260)	(691)	(1,057,557)
3.2	Decrease in the balance of the current portfolio	(3,748,684)	(489)	(1,066)	(3,750,239)
3.3	Bad debt write-offs against the provision	-	-	(1,001)	(1,001)

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
3.4	Transfers from Stage 1	(12)	(4,358)	(42)	(4,412)
3.5	Transfers from Stage 2	(11,527)	(25)	-	(11,552)
3.6	Transfers from Stage 3	(12)	(6,535)	(5,402)	(11,949)
3.7	Foreign exchange differences	(48,305)	(38)	(341)	(48,684)
4	Balance at the end of the year	**3,129,490**	**3,186**	**11,289**	**3,143,965**

Table 7.5. Analysis of reserves for loans and advances to customers for 2020

					(у тисячах гривень)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	11,485	354	5,417	17,256
2	**Increase in the amount of loan provisions for the period**	73,642	2,883	6,209	82,734
2.1	Provision for new loans	56,351	-	-	56,351
2.2	Provision for increase in carrying amount	15,293	358	933	16,584
2.3	Increasing the provision from the transfers between stages	-	2,521	4,261	6,782
2.3.1	Transfers from Stage 1	-	243	-	243
2.3.2	Transfers from Stage 2	35	-	1,331	1,366
2.3.3	Transfers from Stage 3	-	-	3,770	3,770
2.4	Interest accrued on impaired loans	-	-	252	252
2.5	Foreign exchange differences	1,998	4	763	2,765
3	**Decrease in the amount of loan provisions for the period**	(49,538)	(2,502)	(2,300)	(54,340)
3.1	Decrease of provision as a result of repayments	(4,905)	(21)	(627)	(5,553)
3.2	Decrease in provision due to decrease in the carrying amounts	(44,619)	(1,411)	(664)	(46,694)
3.3	Decrease in provisions because of transfers between stages	(2)	(1,045)	(45)	(1,092)
3.4	Bad debt write-offs against the provision	(12)	(25)	(964)	(1,001)
3.5	Recovery of loans written off against provisions in prior periods	-	-	(3,756)	(3,756)
3.6	Transfers of the rights to receive cash flows from loans	-	-	-	-
3.6.1	Transfers from Stage 1	-	(35)	-	(35)
3.6.2	Transfers from Stage 2	(243)	-	-	(243)
3.6.3	Transfers from Stage 3	-	(1,331)	(3,770)	(5,101)
3.7	Interest accrued on impaired loans	-	-	-	-
3.8	Foreign exchange differences	-	-	-	-
4	**Balance at the end of the period**	35,589	735	9,326	45,650

Table 7.6. Loan structure by types of economic activity

(in thousands of Ukrainian hryvnias)					
Line	**Economic activity**	**31/12/2021**		**31/12/2020**	
1	**2**	**3**	**4**	**5**	**6**
1	Transactions with real estate, leasing, engineering and servicing	377,616	7.84%	334,718	10.65%
2	Trade, repair of vehicles, household equipment and items of personal use	1,439,627	29.88%	926,207	29.46%
3	Agriculture, hunting, forestry	321,697	6.68%	272,602	8.67%
4	Processing industry	881,452	18.30%	627,839	19.97%
5	Retail	1,632,493	33.89%	783,093	24.91%
6	Other	164,442	3.41%	199,504	6.34%
7	**Total loans and advances to customers less provisions**	**4,817,327**	**100,00%**	**3,143,963**	**100.00%**

Table 7.7. Information about loans by collateral type of as at 31 December 2021

	(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Loans to individual entrepreneurs**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	**Unsecured loans**	899,469	161	3	651,821	7	1,551,461
2	**Loans secured by:**	855,734	927,109	-	17,085	-	1,799,928
2.1	cash	27,658	-	-	454	-	28,112
2.2	real estate	828,076	927,109	-	16,631	-	1,771,816
2.2.1	residential mortgage	5,054	925,528	-	8,666	-	939,248
2.2.2	non-residential mortgage	823,022	-	-	7,965	-	830,987
2.2.3	land	-	1,581	-	-	-	1,581
3	**Other assets**	1,429,627	-	-	36,311	-	1,465,938
3.1	equipment	396,687	-	-	-	-	396,687
3.2	goods in turnover	730,668	-	-	-	-	730,668
3.3	vehicles	302,272	-	-	36,311	-	338,583
4	**Total loans and advances to customers, gross of provision charges**	**3,184,830**	**927,270**	**3**	**705,217**	**7**	**4,817,327**

Table 7.8. Information about loans by collateral type of as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7
1	**Unsecured loans**	769,426	148	421,327	145	1,191,046
2	**Loans secured by:**	967,007	297,771	28,500	-	1,293,278
2.1	cash	5,124	-	11,859	-	16,983
2.2	Real estate	961,883	297,771	16,641	-	1,276,295
2.2.1	residential mortgage	115,605	294,961	4,727	-	415,293
2.2.2	non-residential mortgage	846,278	-	11,914	-	858,192
2.2.3	Land	-	2,810	-	-	2,810
3	**Other assets**	624,438	-	35,203	-	659,641
3.1	equipment	252,274	-	-	-	252,274
3.2	goods in turnover	100,888	-	-	-	100,888
3.3	vehicles	226,625	-	35,203	-	261,828
3.4	land plots	44,651	-	-	-	44,651
4	**Total loans and advances to customers, gross of provision charges**	**2,360,871**	**297,919**	**485,030**	**145**	**3,143,965**

Table 7.9. Credit quality analysis as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Line	Item	Corporate loans	Retail mortgage loans	Loans to individual entrepreneurs	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	**Impairment Stage 1:**	3,165,195	919,861	3	694,151	7	4,779,217
1.1	Not overdue	3,165,195	918,967	3	689,613	7	4,773,785
1.2	Less than 30 days	-	894	-	4,538	-	5,432
2	**Impairment Stage 2:**	19,635	784	-	4,353	-	24,772
2.1	Not overdue	19,635	318	-	503	-	20,456
2.2	31 - 60 days	-	466	-	1,826	-	2,292
2.3	61 - 90 days	-	-	-	2,024	-	2,024
3	**Impairment Stage 3:**	-	6,625	-	6,713	-	13,338
3.1	Not overdue	-	365	-	460	-	825
3.2	Less than 30 days	-	83	-	356	-	439
3.3	31 - 60 days	-	-	-	87	-	87
3.4	61 - 90 days	-	-	-	275	-	275
3.5	91 - 180 days	-	322	-	2,401	-	2,723
3.6	181 - 270 days	-	-	-	1,328	-	1,328
3.7	More than 270 days	-	5,855	-	1,806	-	7,661
4	**Total loans, gross of provision charges**	**3,184,830**	**927,270**	**3**	**705,217**	**7**	**4,817,327**
5	**Provision for loan impairment**	**(21,733)**	**(12,128)**	**-**	**(15,193)**	**(1)**	**(49,055)**

(in thousands of Ukrainian hryvnias)							
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Loans to individual entrepreneurs**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
6	**Total loans less provisions**	**3,163,097**	**915,142**	**3**	**690,024**	**6**	**4,768,272**

Table 7.10. Credit quality analysis as at 31 December 2020

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Impairment Stage 1:**	2,360,871	287,240	481,241	138	3,129,490
1.1.	Not overdue	2,360,871	285,607	473,546	138	3,120,162
1.2.	Less than 30 days	-	1,633	7,695	-	9,328
2	**Impairment Stage 2:**	-	1,008	2,171	7	3,186
2.1.	Not overdue	-	1,008	-	-	1,008
2.2.	Less than 30 days	-	-	658	-	658
2.3.	31 - 60 days	-	-	783	7	790
2.4.	61 - 90 days	-	-	730	-	730
3	**Impairment Stage 3:**	-	9,671	1,618	-	11,289
3.1.	Not overdue	-	1,357	188	-	1,545
3.2.	31 - 60 days	-	728	530	-	1,258
3.3.	61 - 90 days	-	528	-	-	528
3.4.	91 - 180 days	-	477	382	-	859
3.5.	181 - 270 days	-	1,087	317	-	1,404
3.6.	More than 270 days	-	5,494	201	-	5,695
4	**Total loans, gross of provision charges**	**2,360,871**	**297,919**	**485,030**	**145**	**3,143,965**
5	**Provision for loan impairment**	**(28,663)**	**(9,494)**	**(7,492)**	**(1)**	**(45,650)**
6	**Total loans less provisions**	**2,332,208**	**288,425**	**477, 538**	**144**	**3,098,315**

As at 31 December 2021 and 31 December 2020, the majority of loans provided to corporate borrowers are short-term and are granted to borrowers with a minimal credit risk according to the Bank's assessment.

7.11. Collateral enhancements

The general creditworthiness of a corporate customer tends to be the most relevant indicator of the quality of the loan granted to it. Since a collateral provides additional security, the Bank generally requests corporate borrowers to provide it.

Based on the management's estimates, the provision for expected credit losses without consideration of collateral would be higher as at 31 December 2021 by UAH 12,378 thousand (31 December 2020: by UAH 13,698 thousand).

Based on the management's estimates, the provision for expected credit losses e would be higher as at 31 December 2021 by UAH 7,259 thousand (31 December 2020: by UAH 3,248 thousand) for mortgage loans and as at 31 December 2021: by UAH 201 thousand (31 December 2020: by UAH 346 thousand) for other retail loans.

The valuation of collateral was performed for real estate (apartments, housing estate, non-residential premises, land plots) and movable property (vehicles) as at 1 July 2021. The valuation was performed by an independent certified appraiser

Note 8. Investments in securities

Table 8.1. Investments in securities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	4
1	Debt securities at AC	1,750,635	1,600,391
1.1	certificates of deposit of the National Bank of Ukraine	1,750,635	1,600,391
2	Debt securities at FVTOCI	1,434,851	1,194,481
2.1	domestic government bonds, that are refinanced by the NBU	1,434,851	1,194,481
3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	34	34
4	Provision for impairment of securities	(31)	(31)
5	**Total investments in securities less provisions**	**3,185,489**	**2,794,875**

Line 5 in Table 8.1 corresponds to account “Investments in securities” in the statement of financial position.

Table 8.2. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2021

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,750,635	1,750,635
1.1	Not overdue	1,750,635	1,750,635
2	Provision for impairment of securities	-	-
3	**Total investments in securities at AC**	**1,750,635**	**1,750,635**

Table 8.3. Credit quality of debt securities carried at fair value through other comprehensive income as at 31 December 2021

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,434,902	1,434,902
1.1	Not overdue	1,434,902	1,434,902
2	Provision for impairment of securities	(51)	(51)
3	**Total investments in securities at FVTOCI**	**1,434,851**	**1,434,851**

Table 8.4. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,600,391	1,600,391
1.1	Not overdue	1,600,391	1,600,391
2	Provision for impairment of securities	-	-
3	**Total investments in securities at AC**	**1,600,391**	**1,600,391**

Table 8.5. Credit quality of debt securities carried at fair value through other comprehensive income as at 31 December 2020.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,194,481	1,194,481
1.1	Not overdue	1,194,481	1,194,481
2	Provision for impairment of securities	-	-
3	**Total investments in securities at FVTOCI**	**1,194,481**	**1,194,481**

Table 8.6. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2021 and for the year then ended

				(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Domestic government loan bonds**	**Corporate shares**	**Total**
1	**2**	**3**	**4**	**5**
1	Balance as at 1 January 2021	-	(31)	(31)
2	Increase in provision for impairment during the year	(51)	-	(51)
3	**Balance as at 31 December 2021**	**(51)**	**(31)**	**(82)**

Table 8.7. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2020 and for the year then ended

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2020	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2020**	**(31)**	**(31)**

Table 8.8. Investments in shares and other securities carried at fair value through other comprehensive income

(in thousands of Ukrainian hryvnias)

Line	Name	Activity	Country of registration	Measured at cost (fair value cannot be reliably measured)	
				31/12/2021	31/12/2020
1	2	3	4	5	6
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE "UICE Contracting House"	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 9. Investment property

Table 9.1. Fair value of investment property

The appraisal of investment property was conducted by an independent appraiser, EXPANDIA Limited Liability Company. At the time of the appraisal, the appraiser, EXPANDIA Limited Liability Company, had the appropriate certification in accordance with the current legislation of Ukraine and previous experience in conducting appraisals of similar property.

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2021	31/12/2020
1	2	3	4
1	Fair value of investment property at the beginning of the period	32,872	19,380
2	Recovery of carrying amount from sale of investment property	(17,456)	(2,774)
3	Reclassified to non-current assets held for sale and disposal groups	-	14,441
4	Property foreclosed by the Bank	-	850
5	(Decrease) increase in investment property value	(2,639)	975
6	**Fair value of investment property at the end of the period**	**12,777**	**32,872**

Line 6 in Table 9.1 corresponds to account "Investment property" in the statement of financial position.

Fair value of investment property items was determined to be equal to the market value, net of value added tax. The market value was determined using the comparative and income approach, except for one object (transformer substation with carrying value of UAH 663 thousand, for which the fair value was calculated using the cost approach.

Table 9.2. Amounts recognised in the statement of profit or loss and other comprehensive income

			(in thousands of Ukrainian hryvnias)
Line	**Income and expense**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Gains from disposal of investment property	1,693	83
2	Net (loss) from investment property revaluation	(2,639)	975

Line 1 in Table 9.2 included in Other income line in of statement of profir or loss. Line 2 in Table 9.2 included as a separate line in the statement of profit or loss.

The data in line 1 of Table 9.2 are included in the note Other income of the Profit or loss Statement. Data for line 2 of table 9.2 are displayed separately in the Profit or loss Statement.

Note 10. Property, plant and equipment and intangible assets

Table 10.1. Property, plant and equipment and intangible assets

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1	**Carrying amount as at 01 January 2020:**	**255**	**199,556**	**18,365**	**304**	**3,803**	**796**	**6,152**	**-**	**14,215**	**90,051**	**333,497**
1.1	**Historical (revalued) cost**	**255**	**203,157**	**146,355**	**7,921**	**8,721**	**1,377**	**19,405**	**10,055**	**14,215**	**443,539**	**855,000**
1.2	**Depreciation as at 1 January 2020**	**-**	**(3,601)**	**(127,990)**	**(7,617)**	**(4,918)**	**(581)**	**(13,253)**	**(10,055)**	**-**	**(353,488)**	**(521,503)**
2	Additions	-	-	-	-	-	-	-	-	77,267	-	77,267
3	Transfers	-	-	15,151	-	149	-	-	1,454	(34,136)	17,382	-
4	Improvements of property, equipment and intangible assets	-	104	211	-	-	-	140	-	(41,654)	41,199	-
5	Disposals	-	(3,024)	(191)	-	(5)	(4)	-	-	(69)	-	(3,293)
5.1	Disposal (cost)	-	(3,751)	(12,201)	-	(600)	(41)	(2)	(164)	(69)	(624)	(17,452)
5.2	Disposal (depreciation)	-	727	12,010	-	595	37	2	164	-	624	14,159
6	Depreciation/amortisation charge	-	(13,104)	(7,514)	(252)	(642)	(159)	(2,625)	(1,454)	-	(31,193)	(56,943)
7	Revaluation	2	20,681	-	-	-	-	-	-	-	-	20,683
7.1	Revaluation of historical cost	2	8,870	-	-	-	-	-	-	-	-	8,872
7.2	Revaluation of depreciation/amortisation	-	11,811	-	-	-	-	-	-	-	-	11,811

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
8	**Carrying amount as at 31 December 2020 (01 January 2021):**	**257**	**204,213**	**26,022**	**52**	**3,305**	**633**	**3,667**	**-**	**15,623**	**117,439**	**371,211**
8.1	**Historical (revalued) cost 31 December 2020 (01 January 2021)**	**257**	**208,380**	**149,516**	**7,921**	**8,270**	**1,336**	**19,543**	**11,345**	**15,623**	**501,496**	**923,687**
8.2	**Depreciation as at 31 December 2020 (01 January 2021)**	**-**	**(4,167)**	**(123,494)**	**(7,869)**	**(4,965)**	**(703)**	**(15,876)**	**(11,345)**	**-**	**(384,057)**	**(552, 476)**
9	Additions	-	-	-	-	-	-	-	-	88,402	-	88,402
10	Transfers	-	-	3,006	-	356	-	457	7,240	-	13,648	24,707
11	Improvements of property, equipment and intangible assets	-	-	144	-	-	-	-	-	-	30,360	30,504
12	Disposals	-	(2,458)	(69)	(15)	(4)			-	(55,211)		(57,757)
12.1	Disposal (cost)	-	(2,563)	(19,985)	(3,464)	(407)	(281)	(6,841)	(139)	(55,211)	(519)	(89,410)
12.2	Disposal (depreciation)	-	105	19,916	3,449	403	281	6,841	139	-	519	31,653
13	Depreciation/amortisation charge	-	(14,222)	(6,026)	(37)	(620)	(157)	(1,790)	(3,623)	-	(39,513)	(65,988)
14	Revaluation	-	26,849	-	-	-	-	-	-	-	-	26,849
14.1	Revaluation of historical cost	-	11,489	-	-	-	-	-	-	-	-	11,489
14.2	Revaluation of depreciation/amortisation	-	15,360	-	-	-	-	-	-	-	-	15,360
15	**Carrying amount as at 31 December 2021:**	**257**	**214,382**	**23,077**	**-**	**3,037**	**476**	**2,334**	**3,617**	**48,814**	**121,934**	**417,928**
15.1	**Historical (revalued) cost**	**257**	**217,306**	**132,681**	**4,457**	**8,219**	**1,055**	**13,159**	**18,446**	**48,814**	**544,985**	**989,379**
15.2	**Depreciation as at 31 December 2021**		**(2,924)**	**(109,604)**	**(4,457)**	**(5,182)**	**(579)**	**(10,825)**	**(14,829)**	**-**	**(423,051)**	**(571,451)**

As at 31 December 2021, there are no property, plant and equipment items that are:

- legally restricted for ownership, use and disposal;
- pledged as collateral;
- temporarily not in use (conservation, reconstruction, etc.);
- restricted in terms of ownership;
- decommissioned.

As at 31 December 2021, historical (revalued) cost of fully depreciated/amortised property, plant and equipment, intangible assets and other non-current assets amounts to UAH 241,824 thousand. (2020: UAH 239,783 thousand):

- property, plant and equipment – UAH 104,147 thousand (2020: UAH 113,011 thousand);
- intangible assets – UAH 122,014 thousand (2020: UAH 104,962 thousand);
- other non-current assets – UAH 15,663 thousand (2020: UAH 21,810 thousand).

As at 31 December 2021, the costs incurred from the impairment of property held for sale – UAH 2,639 thousand (2020: UAH 98 thousand).

As at 31 December 2021 and 2020, there were no property, plant and equipment, costs of which were recognised directly in equity.

As at 31 December 2021 and 2020, there were no internally generated intangible assets.

As at 31 December 2021, the fair value measurement was applied to land and buildings assessed by an independent institution, taking into account initially the comparative sales method or the approach of capitalization of income in relation to property, and the cost approach of certain infrastructure or specialized property with limited market information.

As of December 31, 2021 and 2020, right of use assets consisted of right of use assets related to buildings and constructions.

Right of use assets are included in the item Fixed Assets and Intangible Assets line of the Statement of Financial Position.

Table 10.2. Movements in right-of-use assets during the year 2021

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2021	46,372	46,372
1.1	Right-of-use assets cost	93,385	93,385
1.2	Amortisation/depreciation	(47,013)	(47,013)
2	Intial recognition/remeasurement	44,028	44,028
3	Amortisation/depreciation charges for the year	(27,132)	(27,132)
4	Derecognition of right-of-use assets	(11,794)	(11,794)
5	**Balance at 31 December 2021**	**51,474**	**51,474**
5.1	Right-of-use assets cost	116,902	116,902
5.2	Amortisation/depreciation	(65,428)	(65,428)

Table 10.3 Movements in right-of-use assets during the year 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2020	52,828	52,828
1.1	Right-of-use assets cost	76,636	76,636
1.2	Amortisation/depreciation	(23,808)	(23,808)
2	Intial recognition/remeasurement	24,926	24,926
3	Amortisation/depreciation charges for the year	(25,656)	(25,656)
4	Derecognition of right-of-use assets	(5,726)	(5,726)
5	**Balance at 31 December 2020**	**46,372**	**46,372**
5.1	Right-of-use assets cost	93,385	93,385
5.2	Amortisation/depreciation	(47,013)	(47,013)

Note 11. Other financial assets

Table 11.1. Other financial assets

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Accounts receivable from transactions with customers	14,455	12,773
2	Amounts due on accrued income from cash and settlement services and other accrued income	2,318	2,372
3	Accounts receivable from transactions with payment cards	15,588	8,266
4	Other assets	20	20
5	Provision for impairment	(10,182)	(10,513)
6	**Total other financial assets less provisions**	**22,199**	**12,918**

Line 6 in Table 11.1 corresponds to account “Other financial assets” in the statement of financial position.

Table 11.2. Analysis of changes in provision for impairment of other financial assets for 2021

				(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Accounts receivable from transactions with customers**	**Amounts due on overdue accrued income from cash and settlement services, and other accrued income**	**Total**
1	**2**	**3**	**4**	**5**
1	Balance as at 1 January 2021	(9,812)	(701)	(10,513)
2	(Increase)/decrease in provision for impairment during the year	(24)	(9)	(33)
3	Bad debt written off	83	231	314
4	Foreign exchange differences on provisions	49	1	50
5	**Closing balance as at 31 December 2021**	**(9,704)**	**(478)**	**(10,182)**

Line 2 Table 11.2 and Line 2 Table 12.2 corresponds to account “Net (increase) in provisions for impairment of other financial and non-financial assets” in the statement of profit or loss and other comprehensive income.

The difference between amounts shown in account "Net (increase) in provisions for impairment of accounts receivable and other financial assets" in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 11.2 and Table 12.2 represent the bad debt written-off in previous reporting periods against provision and repaid during 2021 at the amount of UAH 1 thousand.

Table 11.3. Analysis of changes in provision for impairment of other financial assets for 2020

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Accounts receivable from transactions with customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Accounts receivable from transactions with banks	Other	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2020	**(9,590)**	**(506)**	**(932)**	**(118)**	**(11,146)**
2	(Increase)/decrease in provision for impairment during the year	63	(188)	-	-	(125)
3	Bad debt written off	-	-	932	118	1,050
4	Foreign exchange differences on provisions	(285)	(7)	-	-	(292)
5	**Closing balance as at 31 December 2020**	**(9,812)**	**(701)**	**-**	**-**	**(10,513)**

Table 11.4. Credit quality analysis of other financial assets as at 31 December 2021 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Accounts receivable from transactions with customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable from transactions with payment cards	Other assets	Total
1	2	3	4	5	6	7
1	Impairment Stage 1:	4,844	1,874	15,588	20	22,326
1.1	Not overdue	4,379	1,746	15,588	20	21,733
1.2	Less than 30 days	465	128	-	-	593
2	Impairment Stage 3:	9,611	444	-	-	10,055
2.1	Less than 30 days	-	3	-	-	3
2.2	31 - 60 days	-	1	-	-	1
2.3	61 - 90 days	-	1	-	-	1

(in thousands of Ukrainian hryvnias)

Line	Item	Accounts receivable from transactions with customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable from transactions with payment cards	Other assets	Total
1	2	3	4	5	6	7
2.4	91 - 180 days	-	29	-	-	29
2.5	181 - 270 days	-	19	-	-	19
2.6	More than 270 days	9,611	391	-	-	10,002
3	Total other financial assets	14,455	2,318	15,588	20	32,381
4	Provision for impairment of other assets	(9,704)	(478)	-	-	(10,182)
5	**Total other financial assets less provisions**	**4,751**	**1,840**	**15,588**	**20**	**22,199**

Table 11.5. Credit quality analysis of other financial assets as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Accounts receivable from transactions with customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable from transactions with payment cards	Other assets	Total
1	2	3	4	5	6	7
1	Impairment Stage 1:	3,056	1,695	8,266	20	13,037
1.1	Not overdue	2,747	1,642	8,266	20	12,675
1.2	Less than 30 days	309	53	-	-	362
2	Impairment Stage 3:	9,716	678	-	-	10,394
2.1	Less than 30 days	-	3	-	-	3
2.2	31 - 60 days	-	12	-	-	12
2.3.	61 - 90 days	-	2	-	-	2
2.4	91 - 180 days	6	46	-	-	52
2.5	181 - 270 days	-	37	-	-	37
2.6	More than 270 days	9,710	578	-	-	10,288
3	Total other financial assets	12,772	2,373	8,266	20	23,431
4	Provision for impairment of other assets	(9,812)	(701)	-	-	(10,513)
5	**Total other financial assets less provisions**	**2,960**	**1,672**	**8,266**	**20**	**12,918**

Note 12. Other non-financial assets

Table 12.1. Other non-financial assets

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
2	Prepaid services	12,896	14,439
3	Precious metals	1,330	3,097
4	Accounts receivable from taxes and mandatory payments other than income tax	187	193
5	Other assets	2,335	2,807
6	Provision for other non-financial assets	(533)	(719)
7	**Total other non-financial assets less provisions**	**16,215**	**19,817**

Line 7 in Table 12.1 corresponds to account "Other non-financial assets" in the statement of financial position.

Table 12.2. Movements in provision for impairment of other non-financial assets as at 31 December 2021 and for the year then ended

(in thousands of Ukrainian hryvnias)				
Line	**Movements in provisions**	**Prepaid services**	**Precious metals**	**Total**
1	**2**	**3**	**4**	**5**
1	Balance as at 1 January 2021	(203)	(516)	(719)
2	Decrease in provision for impairment during the year	39	-	39
3	Bad debt written off	98	-	98
4	Foreign exchange differences on provisions	-	49	49
5	**Balance at 31 December 2021**	**(66)**	**(467)**	**(533)**

Line 2 Table 11.2 and Line 2 Table 12.2 corresponds to account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income. The difference between amounts shown in account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 11.2 and Table 12.2 represents the bad debt written-off in prior reporting periods against provision and repaid during 2021 at the amount of UAH 1 thousand.

Table 12.3. Movements in provision for impairment of other non-financial assets as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)					
Line	**Movements in provisions**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2020	**(538)**	**(423)**	**(336)**	**(1,297)**
2	(Increase) in provision for impairment during the year	38	209	-	247
3	Bad debt written off	500	11	-	511
4	Foreign exchange differences on provisions	-	-	(180)	(180)
5	**Balance at 31 December 2020**	**-**	**(203)**	**(516)**	**(719)**

Table 12.4. Credit quality analysis of other non-financial assets as at 31 December 2021 and for the year then ended

(in thousands of Ukrainian hryvnias)						
Accounts receivable without significant financing component						
Line	**Movements in provisions**	**Prepaid services**	**Precious metals**	**Accounts receivable for taxes and mandatory payments, except income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1:	12,830	1,330	187	2,335	16,682
1.1	Not overdue	12,830	1,330	187	2,335	16,682
2	Impairment Stage 3:	66	-	-	-	66
2.1	31 - 60 days	1	-	-	-	1
2.2	61 - 90 days	4	-	-	-	4
2.3	91 - 180 days	25	-	-	-	25
2.4	181 - 270 days	36	-	-	-	36
3	Total other non-financial assets	12,896	1,330	187	2,335	16,748
4	Provision for impairment of other non-financial assets	(66)	(467)	-	-	(533)
5	**Total other non-financial assets less provisions**	**12,830**	**863**	**187**	**2,335**	**16,215**

Table 12.5. Credit quality analysis of other non-financial assets as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)						
Accounts receivable without significant financing component						
Line	**Movements in provisions**	**Prepaid services**	**Precious metals**	**Accounts receivable for taxes and mandatory payments, except income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1:	14,236	3,097	193	2,807	20,333
1.1	Not overdue	14,234	3,097	193	2,807	20,331
1.2	31 - 60 days	2	-	-	-	2
2	Impairment Stage 3:	203	-	-	-	203
2.1	Less than 30 days	11	-	-	-	11
2.2	31 - 60 days	14	-	-	-	14
2.3	61 - 90 days	4	-	-	-	4
2.4	91 - 180 days	3	-	-	-	3
2.5	More than 270 days	171	-	-	-	171
3	Total other non-financial assets	14,439	3,097	193	2,807	20,536
4	Provision for impairment of other non-financial assets	(203)	(516)	-	-	(719)

(in thousands of Ukrainian hryvnias)						
	Accounts receivable without significant financing component					
Line	**Movements in provisions**	**Prepaid services**	**Precious metals**	**Accounts receivable for taxes and mandatory payments, except income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
5	**Total other non-financial assets less provisions**	**14,236**	**2,581**	**193**	**2,807**	**19,817**

Note 13. Due to customers

Table 13.1. Breakdown of amounts due to customers

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	**Government and public organisations:**	**15,330**	**12,211**
1.1	Current accounts	14,271	12,211
1.2	Term deposits	1,059	-
2	**Other legal entities:**	**4,685,290**	**3,120,693**
2.1	Current accounts	3,255,174	2,483,600
2.2	Term deposits	1,430,116	637,093
3	**Individuals:**	**2,585,168**	**2,295,022**
3.1	Current accounts	2,002,190	1,674,700
3.2	Term deposits	582,978	620,322
4	**Total amounts due to customers**	**7,285,788**	**5,427,926**

Line 4 in Table 13.1 corresponds to account “Due to customers” in the statement of financial position.

The Bank believes that a potential concentration risk may arise when at least 10% of deposits from customers (excluding subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2021 and 31 December 2020, deposits of the 3 and 4 customers of the Bank amounted to UAH 840,023 thousand and UAH 609,494 thousand, respectively, representing 11.53% and 11.23% of total due to customers as at the reporting dates.

Table 13.2. Breakdown of amounts due to customers by types of economic activity

(in thousands of Ukrainian hryvnias)					
Line	**Economic activity**	**31/12/2020**		**31/12/2019**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
1	State authorities	8	0,01	10	0.01
2	Production and distribution of electricity, natural gas and water	20,693	0,28	13,686	0.25
3	Transactions with real estate, leasing, engineering and servicing	384,559	5,28	248,590	4.58
4	Trade, repair of vehicles, household equipment and items of personal use	1,051,007	14,43	692,098	12.75
5	Agriculture, hunting, forestry	29,293	0,40	19,908	0.37
6	Retail	2,585,168	35,48	2,295,022	42.28
7	Processing industry	647,896	8,89	675,982	12.45

(in thousands of Ukrainian hryvnias)					
Line	**Economic activity**	**31/12/2020**		**31/12/2019**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
8	Financial and insurance services	1,364,548	18,72	850,295	15.67
9	Construction	275,100	3,78	133,468	2.46
10	Information and telecommunications	628,936	8,63	199,754	3.68
11	Other	298,580	4,10	299,113	5.50
12	**Total amounts due to customers**	**7,285,788**	**100**	**5,427,926**	**100**

Note 14. Other borrowed funds

Table 14.1. Other borrowed funds as at 31 December 2021 and for the year then ended.

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Loans from international and other financial organizations	343,999	-
2	**Total**	**343,999**	**-**

Line 2 in Note 14 corresponds to account “Other borrowed funds” in the statement of financial position.

In December 2020, the Bank signed an agreement with EUROPEAN INVESTMENT BANK for a loan totaling EUR 30,000,000, to finance and support small and medium-sized businesses in the context of the Covid-19 pandemic.

The loan is provided in the form of tranches each with a minimum amount of at least EUR 5,000,000.

In December 2021, the Bank received the first two tranches on the following terms:

1st tranche – EUR 7 million (for a period of 7 years, at 2.315% per annum);

2nd tranche – EUR 5 million (for a period of 7 years, at 0.785% per annum).

Note 15. Provisions for credit related commitments and financial guarantees

Table 15.1. Changes in provisions for credit commitments and financial guarantee contracts tracts as at 31 December 2021 and for the year then ended.

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Credit-related commitments**	**Total**
1	**2**	**3**	**5**
1	Balance at the beginning of the year	**15 944**	**15 944**
2	Increase (decrease) in provision for impairment during the year	(5 103)	(5 103)
3	Foreign exchange differences on provisions	(1 420)	(1 420)
4	**Balance at 31 December 2021**	**9 421**	**9 421**

Line 4 in Table 15.1 corresponds to account “Provisions for credit related commitments and financial guarantees ” in the statement of financial position. The change in provisions for impairment and lending liabilities on stadges disclosed in Note 28.

Table 15.2. Changes in provisions for credit commitments and financial guarantee contracts as at 31 December 2020 and for the year then ended.

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Credit-related commitments**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	**3,335**	**3,335**
2	Increase in provision for impairment during the year	10,801	10,801
3	Foreign exchange differences on provisions	1,808	1,808
4	**Balance at 31 December 2020**	**15,944**	**15,944**

Line 4 in Table 15.2 corresponds to account "Provisions behind loan commitments and financial guarantee contracts" in the statement of financial position.

Table 15.3. Changes in other provisions as at 31 December 2021 and for the year then ended.

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	**1,930**	**1,930**
2	Increase in provision for impairment during the year	88,116	88,116
3	Debt repayment	(1,461)	(1,461)
4	**Balance at 31 December 2021**	**88,585**	**88,585**

Line 4 in Table 15.3 corresponds to account "Provisions behind loan commitments and financial guarantee contracts" in the statement of financial position.

As of December 31, 2021, disputes over UAH 14 581 thousand (2020: UAH 861 thousand) took place in administrative courts and courts of general jurisdiction, the probability of risk of outflow of resources for which the Bank estimates as probable . Taking into account the Bank's assessments of the prospects for resolving disputes, no provisions were created for these risks.

Table 15.4. Changes in other provisions as at 31 December 2020 and for the year then ended.

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	**8,175**	**8,175**
2	Increase in provision for impairment during the year	(6,121)	(6,121)
3	Debt repayment	(124)	(124)
4	Foreign exchange differences on provisions	-	-
5	**Balance at 31 December 2020**	**1,930**	**1,930**

Line 5 in Table 15.4 corresponds to account "Other provisions" in the statement of financial position.

Note 16 Other financial liabilities

Table 16.1. Other financial liabilities as at 31 December 2021

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	4,011	4,357
2	Accounts payable on transactions with customers	14,648	58,713
3	Settlements on debit and credit cards	34,233	11,527
4	Foreign exchange transactions and settlements	18	9
5	Accruals related to other payments to employees	15,267	12,663
6	Lease liabilities	55,281	50,136
7	Other debt	2,375	2,185
8	**Total other financial liabilities**	**125,833**	**139,590**

Line 8 in Note 16 corresponds to account “Other financial liabilities” in the statement of financial position.

Note 17. Other non-financial liabilities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Accounts payable on taxes other than income tax	12,063	10,321
2	Accounts payable on settlements with the Bank’s employees	6,250	7,426
3	Accounts payable on asset acquisitions	8,938	697
4	Deferred income	10,708	8,932
5	Accounts payable on management and internal specialists services	18,951	14,849
6	Accounts payable on technical support and software maintenance services	766	40
7	Accounts payable on services and security	5,272	6,588
8	Accounts payable on services related to bad debt recovery	61	84
9	Settlements via payment systems and Ukrainian Processing Center	7,469	5,833
10	Other	91	23
11	**Total other non-financial liabilities**	**70,569**	**54,793**

Line 11 in Note 17 corresponds to account “Other non-financial liabilities” in the statement of financial position.

Note 18. Share capital

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Number of shares in issue (in thousands)**	**Ordinary shares**	**Share premium**	**Preference shares**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Balance at 1 January 2020**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
2	Contributions for newly issued shares	-	-	-	-	-

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Number of shares in issue (in thousands)**	**Ordinary shares**	**Share premium**	**Preference shares**	**Total**
3	**Balance at 31 December 2020 (balance at 1 January 2021)**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
4	Contributions for newly issued shares	-	-	-	-	-
5	**Balance at 31 December 2021**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**

As at 31 December 2021 and 31 December 2020, preference shares outstanding amount to 1,500 shares in total.

As at 31 December 2021 and 31 December 2020, the nominal value of the shares is UAH 0.58 per share.

Holders of preference shares have the right to:

- participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of the Bank's net profit earned in the respective year;
- preferences stipulated by the terms of preference share issue are as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit earned in the respective year.

In accordance with the Ukrainian legislation, distributable reserves are restricted by retained earnings in accordance with laws and regulations.

Note 19. Revaluation reserves (components of other comprehensive income)

Table 19.1. Securities revaluation reserves

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1.	Balance at 1 January	**(2,753)**	**3,867**
2	Changes in gains/losses arising from revaluation of securities at FVTOCI:	3,632	(7,469)
2.1	changes in revaluation to fair value	3,632	(7,469)
3	Income tax related to change in reserve for investments in securities	47	849
4	**Total revaluation reserves less income tax**	**926**	**(2,753)**

Table 19.2. Movements in revaluation reserve for property, plant and equipment

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Balance at 1 January	**213,575**	**206,809**
2	Revaluation of PP&E	20,141	12,857
2.1	changes in fair value	25,503	19,941

Line	Item	31/12/2021	31/12/2020
			(in thousands of Ukrainian hryvnias)
1	**2**	**3**	**4**
2.2	amortisaiton to retained earnings	(5,362)	(7,084)
3	Income tax related to revaluation of property, plant and equipment	(4,058)	(6,091)
4	**Total revaluation reserves less income tax**	**229,658**	**213,575**

Table 19.3. Results of adjusting the value of financial instruments in transactions with shareholders

Line	Item	31/12/2021	31/12/2020
			(in thousands of Ukrainian hryvnias)
1	**2**	**3**	**4**
1.	Balance at 1 January	**94**	**72**
2	Results of adjusting the value of financial instruments in transactions with shareholders	(115)	27
2.1	Gain recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	63	276
2.2	(Loss) recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	(44)	(37)
2.3.	(Loss) recognised on initial recognition and attributed to retained earnings on disposal of the financial instrument in transactions with the Bank's shareholders	(134)	(212)
3	Income tax related to changes in the adjustment of the value of financial instruments in transactions with the Bank's shareholders	21	(5)
4	**Total adjustments of the value of financial instruments, net of income tax**	**-**	**94**

Note 20. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	Notes	31 December 2021			31 December 2020		
			less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	937,739	-	**937,739**	1,005,572	-	**1,005,572**
2	Loans and advances to banks		-	-	**-**	282,849	-	**282,849**
3	Loans and advances to customers	7	2,772,505	1,995,767	**4,768,272**	1,836,421	1,261,894	**3,098,315**
4	Investments in securities	8	3,185,489	-	**3,185,489**	2,794,875	-	**2,794,875**
5	Investment property	9	-	12,777	**12,777**	-	32,872	**32,872**
6	Current income tax receivable		29	-	**29**	542	-	**542**
7	Intangible assets other than goodwill	10	-	151,398	**151,398**	-	371,211	**371,211**
8	Fixed assets	10	26,704	291,300	**318,004**	22,823	23,549	**46,372**
9	Other financial assets	11	22,199	-	**22,199**	12,918	-	**12,918**
10	Other non-financial assets	12	16,215	-	**16,215**	19,817	-	**19,817**
11	**Total assets**		**6 960 880**	**2 451 242**	**9,412,122**	**5,975,817**	**1,689,526**	**7,665,343**
	LIABILITIES							
12	Due to banks	16	-	-	**-**	300,214	-	**300,214**
13	Due to customers	17	7,273,591	12,197	**7,285,788**	5,380,299	47,627	**5,427,926**
14	Derivative financial liabilities		76	-	**76**	-	-	-
15	Debt securities issued by the Bank	18	1	-	**1**	1	-	1
16	Other borrowed funds		-	343,999	**343,999**	-	-	-
17	Deferred tax liabilities	29	9,237	-	**9,237**	5,247	-	**5,247**
18	Provisions	19	92,392	5,614	**98,006**	11,549	6,325	**17,874**
19	Other financial liabilities	20	101,981	23,852	**125,833**	116,371	23,219	**139,590**
20	Other non-financial liabilities	21	70,565	4	**70,569**	54,793	-	**54,793**
21	**Total liabilities**		**7,547,843**	**385,666**	**7,933,509**	**5,868,474**	**77,171**	**5,945,645**

Note 21. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Item	2021	2020
1	2	3	4
	Interest income		
1	Interest income on loans and advances to banks	291	2,238
2	Interest income on loans and advances to customers	339,551	234,383
3	Interest income on investments in securities at AC	80,582	97,232
4	Interest income on investments in securities at FV	131,767	121,613
5	**Total interest income**	**552,191**	**455,466**
	Interest expense:		
6	Interest expenses on term deposits of corporate customers	(35,726)	(27,098)
7	Interest income on term deposits of individuals	(15,539)	(21,329)
8	Interest income on overnight loans from other banks	(7)	(45)
9	Interest expenses on other loans received from the National Bank of Ukraine through refinancing	(986)	(2,065)
10	Interest expenses on current accounts	(118,143)	(94,747)
11	Interest expenses on loans received from international and other organizations	(166)	-
12	Interest expense on lease liabilities	(7,363)	(7,831)
13	**Total interest expenses**	(177,930)	**(153,115)**
14	**Net interest income**	**374,261**	**302,351**

Line 5 and line 13 in Note 21 corresponds to account “Interest income” and “Interest expense” in the statement of profit or loss.

Note 22. Commission income and expenses

(in thousands of Ukrainian hryvnias)

Line	Item	2021	2020
1	2	3	4
	COMMISSION INCOME:		
1	Cash and settlement services	119,182	102,591
2	Bank commission for the lease of safe deposit boxes	14,568	11,695
3	Commission for insurance broker services	1,968	2,610
4	Commission for TaxFree check payments	829	734
5	Transactions with securities	794	455
6	Interbank transactions with plastic cards	27,668	24,832
7	Guarantees issued	8,044	7,438
8	Other	32	26
9	**Total fee and commission income**	**173,085**	**150,381**
	COMMISSION EXPENSE:		
10	Cash and settlement services	(47,435)	(39,078)
11	Commission for services and other commissions	(61)	(44)
12	Guarantee expenses	(435)	(784)
13	Services provided by payment systems and transactions with plastic cards	(12,272)	(11,065)
14	**Total fee and commission expense**	**(60,203)**	**(50,971)**
15	**Net fee and commission income**	**112,882**	**99,410**

Line 9 and Line 14 in Note 22 correspond to accounts “Commission income” and “Commission expense” in the statement of profit or loss.

Note 23. Other income

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2021**	**2020**
1	**2**	**3**	**4**
1	Operating lease income	61	73
2	Penalties and fines received	509	474
3	Undrawn funds upon expiration of limitation period	3,980	19,872
4	Compensation of shortages charged to responsible employees	236	316
5	Result from the sale of investment property	1,693	83
6	Result from the sale of property, plant and equipment	2,681	9,991
7	Result from evaluation of property, plant and equipment	1,353	902
8	Gains from recovering an advance payment for enforcement proceedings, court fees and other related costs	921	1,463
9	Income from the provision of a discount for the quarantine period for the lease of the premises	797	1,825
10	Income from payment systems	-	1,553
11	Result from modification of financial assets	1,522	-
12	Other	1,489	2,432
13	**Total operating income**	**15,242**	**38,082**

Line 10 in Note 23 corresponds to account “Other income” in the statement of profit or loss.

Note 24. Other administrative and operating expenses

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2021**	**2020**
1	**2**	**3**	**4**
1	Business trips	661	579
2	Recruitment services	36,956	25,381
3	Maintenance of property, plant and equipment and intangible assets, telecommunication and other operation services	184,734	167,712
4	Operating lease expenses	2,316	2,490
5	Cash collection and transportation	1,276	550
6	Services provided by payment systems on payment cards	11,477	7,846
7	Legal services on litigations and payments to collectors	5,055	4,870
8	Professional services	19,342	24,389
9	Marketing and advertising expenses	10,920	6,039
10	Security expenses	4,878	5,457
11	Taxes other than income tax	34 607	27,038
12	Write-down of property, plant and equipment	-	258
13	Loss on modification of financial assets	-	1,144
14	Other	1,835	1,114
15	**Total other administrative and operating expenses**	**314,057**	**274,867**

Line 15 in Note 24 corresponds to account “Other administrative and operating expenses” in the statement of profit or loss.

Line 4 “Operating lease expenses” for 2021 and 2020 breaks down operating lease costs for facilities for which the Bank uses a simplified method of accounting because of the short-term period of the lease and/or insignificant value of the leased asset. The amount of VAT as part of lease payments paid to the lessor and not reimbursed to the Bank in the amount of UAH 900 thousand (2020: UAH 897 thousand) is included in line 11 “Payment of other taxes and mandatory payments other than income tax”.

Note 25. Income tax expense

Table 25.1. Income tax benefits

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	**Current income tax**	**-**	**-**
2	**Change in deferred income tax resulting from:**	**-**	**-**
2.1	origination or write-off of temporary differences	-	-
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit**	**-**	**-**

Line 3 in Table 25.1 corresponds to account "Income tax benefit" in the statement of profit or loss and other comprehensive income.

The Bank recognizes current income tax as a liability in the amount calculated for the reporting period in accordance with the requirements of the Tax Code of Ukraine. As of December 31, 2021 and December 31, 2020, the tax rate was 18%.

Table 25.2. Reconciliation of accounting loss and taxable loss

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	(Loss) before tax	(266,249)	(182,803)
2	Income tax at applicable tax rate	47,925	32,904
3	Effect of permanent tax differences	(46,103)	(51,555)
4	Changes in unrecognised deferred tax assets	(1,822)	18,651
5	**Income tax benefits**	-	-

Table 25.2.1. Tax effects of deferred tax assets and liabilities recognised for 2021

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balance at 1 January 2020**	**Recognised in profit or loss during the year**	**Recognised in OCI during the year**	**Balance at 31 December 2021**
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1	Property, plant and equipment, intangible assets and investment property, net amount	(6,091)	-	(4,058)	(10,149)
1.1.1	Recognized liability	(27,066)	-	(4,058)	(31,124)
1.1.2	Recognized asset	20,975	-	-	20,975
1.2	Investment securities at fair value through comprehensive income and adjustments in the cost of financial instruments at initial recognition	844	-	68	912
2	Net of deferred tax asset (liability), including:	**(5,247)**	**-**	**(3,990)**	**(9,237)**
3	**Recognized deferred tax**	(27,066)	-	(4,058)	(31,124)

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2020	Recognised in profit or loss during the year	Recognised in OCI during the year	Balance at 31 December 2021
1	**2**	**3**	**4**	**5**	**6**
	liability (hereinafter - DTL)				
4	**Recognized deferred tax assets (hereinafter – DTA)**	**21,819**	**-**	**68**	**21,887**

Table 25.3.1. Unrecognised deferred tax assets for 2021

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2021	Changes in unrecognised deferred tax assets	Balance at 31 December 2021
1	**2**	**3**	**4**	**5**
1	**Tax effect of impaired temporary differences:**			
1.1	Tax losses carried forward	478,590	35,439	514,029
1.2	Provisions	3,241	14,416	17,657
1.3	Other assets	2,502	(495)	2,007
1.4.	Property, plant and equipment, intangible assets and investment property	11 ,562	(3,257)	8,305
1	Total DTA (deferred tax asset)	**495,895**	**46,103**	**541,998**
2	**Provision for impairment of deferred tax assets**	**(474,920)**	**(46,103)**	**(521,023)**
2.1	Provision for tax losses carried forward	(457,615)	(35,439)	(493,054)
2.2	Provision for impairment of other deferred tax assets	(17,305)	(10,664)	(27,969)
3	**Net recognized DTA (deferred tax asset)**	**20,975**	**-**	**20,975**

Table 25.3.2. Tax effects of deferred tax assets and liabilities recognised for 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2020	Recognised in profit or loss during the year	Recognised in OCI during the year	Balance at 31 December 2021
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1.	Property, plant and equipment, intangible assets and investment property, net amount	-	-	(6,091)	(6,091)
1.1.1	Recognized liability	(20,975)	-	(6,091)	(27,066)
1.1.2	Recognized asset	20,975	-	-	20,975
1.2.	Investment securities at fair value through comprehensive income and adjustments in the cost of financial instruments at initial recognition	-	-	844	844
2	Net of deferred tax asset (liability), including:	-	-	(5,247)	(5,247)
3	**Recognized deferred tax liability (hereinafter - DTL)**	(20,975)	-	(6,091)	(27,066)
4	**Recognized deferred tax assets (hereinafter – DTA)**	20,975		844	21,819

Table 25.3.3. Unrecognised deferred tax assets for 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2020	Changes in unrecognised deferred tax assets	Balance at 31 December 2020
1	**2**	**3**	**4**	**6**
1	**Tax effect of impaired temporary differences:**			
1.1	Tax losses carried forward	432,066	46,524	478,590
1.2	Provisions for liabilities	3,076	165	3,241
1.3	Other assets	2,007	495	2,502
1.4.	Property, plant and equipment, intangible assets and investment property	7,191	4,371	11,562

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Balance at 1 January 2020**	**Changes in unrecognised deferred tax assets**	**Balance at 31 December 2020**
1	**2**	**3**	**4**	**6**
1	**Total DTA (deferred tax asset)**	444,340	51,555	495,895
2	**Provision for impairment of deferred tax assets**	**(423,365)**	(51,555)	(474,920)
2.1	Provision for tax losses carried forward	(411,091)	(46,524)	(457,615)
2.2	Provision for impairment of other deferred tax assets	(12,274)	(5,031)	(17,305)
3	Net recognized DTA (deferred tax asset)	20,975	-	20,975

Note 26. (Loss)/gain per ordinary share and preference share

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Loss attributable to holders of ordinary shares	(266,249)	(182,803)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(266,249)	(182,803)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,686,586	1,686,586
5	Annual average number of preference shares outstanding (in thousands of shares)	1 500	1,500
6	Basic and diluted (loss) per ordinary share (in UAH)	(0.16)	(0.11)
7	Basic and diluted gain per preference share (in UAH)	0.10	0.10

Note 27. Dividends

(in thousands of Ukrainian hryvnias)					
		31/12/2021		**31/12/2020**	
Line	**Item**	**Ordinary shares**	**Preference shares**	**Ordinary shares**	**Preference shares**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at 1 January	-	-	-	-
2	Dividends declared for payout during the period	-	157	-	157
3	Increase in reserves due to dividends	-	(157)	-	(157)
4	**Balance at the end of the period**	-	-	-	-

In accordance with the shareholder's resolution no. 1/2021 dated 22 April 2021, dividends on preference shares payable for 2020 were calculated and transferred to the Bank's reserves.

Note 28. Contingent liabilities

Capital investment commitments

As at 31 December 2021, JSC "PRAVEX BANK" assumed contractual obligations to purchase property, plant and equipment and intangible assets in the amount of UAH 3,851 thousand (31 December 2020: UAH 7,132 thousand) in accordance with the contracts concluded. Contingent liabilities for litigations are disclosed in Note 15.

Table 28.1. Structure of credit-related commitments

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	Unused credit lines	2,320,892	2,080,498
2	Export letters of credit	385,259	331,157
3	Guarantees issued	9,546	1,777
4	Provision for credit-related commitments	(9,421)	(15,944)
5	**Total credit-related commitments less provisions**	**2,706,276**	**2,397,488**

Table 28.2. Changes in credit-related commitments for 2021

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	**Commitments at the beginning of the period**	**2,413,426**	**-**	**6**	**2,413,432**
2	**Increase in the amount of commitments for the period**	**7,029,706**	**142**	**-**	**7,029,848**
2.1	New commitments	3,609,909	-	-	3,609,909
2.2	Increase in the amount of current commitments	3,338,612	129	-	3,338,741
2.3	Transfers between stages	-	13	-	13
2.4	Exchange rate differences	81,185	-	-	81,185
3	**Decrease in the amount of commitments for the period**	**(6,727,570)**	**(13)**	**-**	**(6,727,583)**
3.1	Extinguished commitments	(4 326 087)	-	-	(4,326,087)
3.2	Commitments that have expired	(2,099,403)	(13)	-	(2,099,416)
3.3	Transfers between stages	(13)	-	-	(13)
3.4	Exchange rate differences	(302,067)	-	-	(302,067)
4	**Commitments at the end of the period**	**2,715,562**	**129**	**6**	**2,715,697**

The Bank has outstanding loan commitments. These liabilities are represented by approved loans and credit card limits on overdraft terms and credit lines. The total amount of outstanding loan commitments does not necessarily reflect future cash requirements, as such commitments may expire or be canceled without requiring funds.

Table 28.3. Changes in provisions for credit related commitements and contracts of financial guarantee as of 31.12.2021 and for the year ended on that date

(in thousands of hryvnias)					
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	2	3	4	5	6
1	***Provisions for credit related commitments as of the beginning of the period***	15,943	-	1	15,944
2	**Increase in the amount of commitments for the period**	29,755	4	1	29,760
2.1	Provision for new commitments	17,286	-	-	17,286
2.2	Provision for increase in commitments	12,005	-	-	12,005
2.3	Increasing of provision ftransfers between stages	-	4	-	4
2.4	Transfers between stages	-	-	1	1
2.5	Exchange rate differences	464	-	-	464
3	**Decrease in the amount of commitments for the period**	(36,281)	(1)	(1)	(36,283)
3.1	Decrease in the provision for extinguished commitments	(2,124)	(1)	-	(2,125)
3.2	Decrease of the provision for decrease of commitments	(32,274)	-	-	(32,274)
3.3	Decrease of the provision because of transfers between stages	-	-	-	-
3.4	Transfers between stages	-	-	(1)	(1)
3.5	Exchange rate differences	(1,883)	-	-	(1,883)
4	***Provisions for credit related commitments at the end of the period***	9,417	3	1	9,421

Line 4 in Table 28.3 corresponds to account “Provisions for credit related commitments and financial guarantees” in the statement of financial position.

Table 28.4. Changes in lending commitments for 2021.

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	**Commitments at the beginning of the period**	**855,385**	**-**	**-**	**855,385**
2	**Increase in the amount of commitments for the period**	**5,027,683**	**8**	**12**	**5,027,703**
2.1	New commitments	3,315,115	-	-	3,315,115
2.2	Increase in the amount of current commitments	1,453,824	2	-	1,453,826
2.3	Transfers between stages	2	6	12	20
2.4	Exchange rate differences	258,742	-	-	258,742
3	**Decrease in the amount of commitments for the period**	**(3,469,642)**	**(8)**	**(6)**	**(3,469,656)**

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
3.1	Extinguished commitments	(2,964,980)	-	-	(2,964,980)
3.2	Commitments that have expired	(504,656)	-	-	(504,656)
3.3	Transfers between stages	(6)	(8)	(6)	(20)
3.4	Exchange rate differences	-	-	-	-
4	**Commitments at the end of the period**	**2,413,426**	**-**	**6**	**2,413,432**

Table 28.5. Changes in provisions for other liabilities and contracts of financial guarantee as of 31.12.2020 and for the year ended on that date

(in thousands of hryvnias)					
Line	**Item**	**Stage 1**	Stage 2	**Stage 3**	**Total**
1	2	**3**	**4**	**5**	**6**
1	***Provisions for credit related commitments as of the beginning of the period***	3,335	-	-	3,335
2	**Increase in the amount of commitments for the period**	34,512	1	2	34,515
2.1	Provision for new commitments	21,628	-	-	21,628
2.2	Provision for increase in commitments	11,076	-	-	11,076
2.3	Increasing of provision transfers between stages	-	-	1	1
2.4	Transfers between stages	-	1	1	2
2.5	Exchange rate differences	1,808	-	-	1,808
3	**Decrease in the amount of commitments for the period**	(21,904)	(1)	(1)	(21,906)
3.1	Decrease in the provision for extinguished commitments	(720)	-	-	(720)
3.2	Decrease of the provision for decrease of commitments	(21,184)	-	-	(21,184)
3.3	Decrease of the provision because of transfers between stages	-	-	-	-
3.4	Transfers between stages	-	(1)	(1)	(2)
3.5	Exchange rate differences	-	-	-	-
4	***Provisions for credit related commitments at the end of the period***	15,943	-	1	15,944

Table 28.6. Credit-related commitments by currencies (including provisions)

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	UAH	831,374	860,297
	USD	104,075	-
3	EUR	1,770,827	1,537,191
4	**Total**	**2,706,276**	**2,397,488**

Note 33. Financial risk management

The Bank manages its risks using a risk management system which is comprehensive, adequate and effective. The risk management system was designed by reference to the specifics of business, business model, nature and scope of operations, risk profile, requirements and recommendations of the NBU and the best practices of the parent company.

The risk management system provides continuous risk analysis for taking timely and adequate management decisions to mitigate risks and reduce their losses by clearly delimiting the functions and tasks of all units of the Bank using the three lines of defence model.

The risk management system includes the definition of the organisational structure, the system of internal documents on risk management, the information system and the risk management tools.

The Risk Management Department is one of the standalone structural units that ensures the Bank’s risk management The Bank's system of internal documents establishes the principles of the control system by defining processes, limits, relevant functions and responsibilities. Policies also specify the risk limits and risk-taking principles by types of activity, as well as the necessary actions if the limits are exceeded.

The Bank has a risk management system that consists of permanent committees: Credit Committee, Risk Management Committee, Credit Risk Management Committee, Distressed Asset Management Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee, Information Security Management Committee of the Internal Controls Coordination Committee and of the Crisis Management Committee.

As part of risk management efforts, JSC “PRAVEX BANK” flags the following significant risks specific to its transactions: credit risk, liquidity risk, interest rate risk in the banking book, market risk, as well as non-financial ones – operational risk and compliance risk.

Credit risk

Credit risk is the risk that expected losses will occur on an asset resulting from default of a borrower/counterparty.

The Bank calculates the amount of credit risk by assets on an individual, collective basis.

The Bank groups financial assets on the basis of shared risk characteristics, in particular:

1. orientation;
2. type of product;
3. fractionality applied to loans united in:

- groups of loans issued to corporate borrowers (legal entities) (except for apartment building coowners associations (OSBB) and building cooperatives (ZhBK));
- groups of loans granted to retail borrowers (individuals) and secured by mortgage items;
- groups of loans granted to retail borrowers (individuals) and secured by purchased vehicles;
- groups of loans granted to retail borrowers (individuals) and secured by other types of collateral;

4. materiality of the individual requirements (the maximum amount of debt on multiple loans of a single debtor/counterparty included in the group cannot exceed the limit set for the respective group);
5. frequency and scope of debt repayment by the borrower as determined by the lending arrangement.

Individual credit risk is the risk of a specific debtor/counterparty of the bank. The assessment of individual credit risk involves the assessment of creditworthiness of an individual debtor/counterparty, i.e. their individual ability to settle the obligations assumed in full and on schedule.

For mitigating a credit risk, the Bank employs different types and conditions for lending transactions in terms of maturity, borrowers, collateral, interest rates, interest accrual methods, limits, loan portfolio diversification, provisioning, monitoring and risk control.

In order to improve the Bank's exposure to credit risk, the Risk Management Department performs the following actions in addition to already specified:

- monthly monitoring of the loan portfolio quality depending on the number of days of default:

- borrowers or groups of related counterparties;

- Borrowers with a joint business activity;

- Borrowers from the same geographical region;

- credit products;

- Monitors on a monthly basis the structure of loan charges/receivables;

- On a monthly basis monitors the adequacy of the Bank's loan loss provisions in line with the requirements of the IFRS and the level of credit risk in line with the requirements of the NBU;

- Monthly analysis of PL/NPL loan portfolio movements and reserves in main currencies (UAH, USD, EUR);

- develops credit risk management schemes based not only on national standards but also on international practice.

The Risk Management Department is responsible for developing specific high-level internal documents necessary to ensure effective credit risk management: policies, guidelines and key documents (methodology, implementation procedures, etc.). High-level documents should include objectives, the organisational process, the form and frequency of reporting, risk appetites and limits, as well as the implementation process, and should be approved by the relevant collegial body. The basic documents must also be approved by the relevant collegial body. The Bank may combine the internal documents in one or more. Write-offs of loans shall be governed by the relevant internal regulations.

The carrying value of items of the Statement of Financial Position including derivative financial instruments shows in the best possible way the maximum credit risk for such items. The carrying value of financial instruments recognized at fair value presents an existing, but not maximum credit risk which could be changed in future due to the value variations.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions. This is the risk that the fair value or future cash flows will change due to fluctuations in market variables such as interest rates, exchange rates and yield on securities.

In order to mitigate the effect that the market risk has on the Bank, the risk management department takes the following actions:

- updates internal market risk documents on a regular basis;
- monitors the level of the open currency position on a daily basis;

- forecasts the value of the open currency position and its relation to the regulatory capital on a daily basis;
- analyses movements in the market by reference to the movements in exchange rates and market prices for securities on a daily basis;
- assesses the market risk by calculating the value at risk (VaR) for the currency risk on a daily basis;
- determines the ratio of quantitative assessment of the market risk to the Bank's profit;
- monitors the level of risk appetite and limits set by the Bank and signals on the need to initiate an escalation process on a daily basis;
- conducts stress tests at least once a quarter;
- analyses new products and services in terms of market risk exposure;
- prepares complete market risk reports in a timely manner for the Bank's corporate bodies in accordance with the frequency and form requirements established by this document and other relevant internal documents.

Market risk management is carried out exclusively within the limits of the Bank's banking book using the following internal documents:

- Market risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies;
- Interest rate risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.
- Interest rate risk control and measurement rules of JSC PRAVEX BANK approved by decisions of the competent corporate bodies;
- Financial portfolio management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.

The Bank classifies and measures transactions with securities and other financial investments based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics. The Bank measures certificates of deposit and domestic government loan bonds in accordance with the Accounting Policy Regulation of JSC "PRAVEX BANK".

The Bank classifies and measures credit transactions based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics at amortised cost. A credit transaction is assessed for consistency with the business model at the new product launching phase.

Currency risk

Currency risk arises from adverse fluctuations in foreign exchange rates that affect the assets, liabilities and off-balance sheet items in the Bank's trading and banking books.
Limiting is the main approach and tool of currency risk management in the Bank. The Bank uses this tool by setting risk appetites and limits:

- the ratio of value at risk (VaR) to regulatory capital was observed: as of 31.12.2021 with a rate of 0.01%, risk-appetite is 1%, as of 31.12.2020 - 0.05%, risk-appetite - 1%);
- on the total open currency position of the Bank, in accordance with the regulatory requirements of the NBU in relation to regulatory capital (complied with: as of 31.12.2021 the value of the total short open currency position of the Bank is 0.74% and the total long open currency position of the Bank - 1.55 %, limit <15% for total short and long open currency position, as of 31.12.2020 - 4.05% and 0.29%, respectively, limit <10% for total short and long open currency position);

- the internal limits of the currency position in terms of currencies were observed for the US dollars and the euro separately and for the total open currency position of the Bank in absolute terms for all currencies;
- Sublimes for the short and long open currency position of the Bank for Cash and Banking Metals were observed.

The system of internal limits allows comprehensive and adequate management of currency risk using the Bank's risk management principles. Such limits are necessary to prevent unexpected losses from significant fluctuations in exchange rates.

Table 29.1. Currency risk analysis

								(in thousands of Ukrainian hryvnias)
Line	**Currency**	**31/12/2021**				**31/12/2020**		
		Monetary assets	**Monetary liabilities**	**Derivative financial liabilities**	**Net position**	**Monetary assets**	**Monetary liabilities**	**Net position**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**10**
1	USD	1,422,167	1,385,284	(81,835)	(44,952)	1,296,451	1,314,414	(17,963)
2	EUR	1,060,344	1,186,540	81,824	(44,372)	638,013	669,050	(31,037)
3	GBP	3,453	3,216	-	237	4,292	4,411	(119)
4	Other	23,606	17,954	-	5,652	17,908	14,100	3,808
5	**Total**	2,509,570	2,592,994	(11)	(83,435)	1,956,664	2,001,975	(45,311)

Table 29.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Weighted average FX rate at 31/12/2021**		**Weighted average FX rate at 31/12/2020**	
		effect on profit/(loss)	**effect on equity**	**effect on profit/(loss)**	**effect on equity**
1	**2**	**3**	**3**	**3**	**6**
1	USD strengthening by 20 %	7,379	7,379	(3,425)	(3,425)
2	USD weakening by 20 %	(7,379)	(7,379)	3,425	3,425
3	EUR strengthening by 20 %	(26,371)	(26,371)	(5,501)	(5,501)
4	EUR weakening by 20%	26,371	26,371	5,501	5,501
5	GBP strengthening by 20%	48	48	(21)	(21)
6	GBP weakening by 20%	(48)	(48)	21	21
7	Strengthening of other currencies by 20%	1,182	1,182	722	722
8	Weakening of other currencies by 20%	(1,182)	(1,182)	(722)	(722)

Interest rate risk in the banking book

The interest rate risk of the banking book relates to the current or projected risk to the Bank's capital and income arising from adverse changes in interest rates that affect the position of the banking book. When interest rates change, the present value and timing of future cash flows change. This, in turn, changes the base value of the Bank's assets, liabilities and off-balance sheet items, and hence its economic value (EVE). Changes in interest rates also affect the Bank's income by changing interest rate sensitive income and expenses, which affects net interest income (NII).

The purpose of managing the interest rate risk of the banking book is to keep the impact of interest rate risk of the Bank within self-established parameters in the range of possible changes in interest rates.

To reduce the impact of interest rates on the Bank's activities, in addition to the actions already defined, the Risk Management Department performs the following actions:

- conducts a monthly GAP analysis of interest-bearing assets and liabilities;
- performs monthly analysis of the dynamics of yield curves in major currencies (hryvnia, dollar, euro);
- assesses the interest rate risk of the banking book on a monthly basis by calculating offsets for:
  - economic value of EVE capital (the Bank's value was observed within the established risk appetites: as of 31.12.2021 the value is -1.83 million euros, risk-appetite is +1.5 / -4 million euros; as of 31.12.2020 is -1.21 million euros, risk-appetite is ± 4 million euros);
  - net interest income of NII (the value of the Bank was observed within the established risk appetites: as of 31.12.2021 the value is -0.20 million euros, risk-appetite is <-1 million euros; as of 31.12.2020 is -0, 11 million euros, risk-appetite is -1 -1 million euros);
- establishes the ratio of quantitative assessment of the interest rate risk of the banking book with the Bank's profit (complied with: as of 31.12.2021 the value is 7.07%, the limit is <15%; as of 31.12.2020 is 6.36% the limit is <15%) and to the regulatory capital of the Bank (complied with: as of 31.12.2021 the value is 9.77%, the limit is <20%; as of 31.12.2020 is 9.28%, the limit is <20%).

The Risk Management Department is responsible for developing certain high-level internal documents necessary to ensure effective management of the bank's interest rate risk: policies, guidelines and key documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting and periodicity forms, risk appetites and limits, as well as the escalation process, and should be approved by the relevant collegial body. Basic documents must also be approved by the relevant collegial body. The bank may combine internal documents in one or more.

Table 29.3. General analysis of the interest rate risk

The general analysis of interest rate risk as of December 31, 2021 and 2020 does not take into account financial assets and financial liabilities that are not sensitive to changes in interest rates, namely: the Bank's required reserves with the National Bank of Ukraine; other financial assets; other financial liabilities.

For financial instruments that are sensitive to changes in interest rates and are presented in the Bank's balance sheet, fixed and floating rates are provided, which are revised in accordance with the agreements concluded with clients and in accordance with the Bank's internal procedures.

Floating rates are provided only for a small part of financial assets in UAH (Loans and advances to customers, including long-term loans to individuals), for all other financial assets and liabilities only fixed rates are provided.

The impact of changes in interest rate sensitive financial instruments is assessed by calculating the monthly changes in the economic value of capital (EVE) and net interest income (NII).

For the EVE method, it is assumed that long-term financial instruments have the greatest impact. Scenarios of interest rate changes for the Bank are considered as follows: with the current distribution of assets and liabilities, there is a decrease in the economic value of capital with increasing yield curve.

For the NII method, which considers financial instruments with a maturity of up to 1 year, it is assumed that the most influential are on-demand financial instruments. Interest rate scenarios for the Bank are considered as follows: with the current distribution of assets and liabilities, there are net interest losses with increasing yield curve.

As noted above, during 2021 and 2020 the Bank adhered to the established risk appetites and limits set under the EVE and NII methods.

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than a year**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
31/12/2021						
1	Total financial assets	2,883,869	2,367,464	728,860	1,995,767	7,975,960
2	Total financial liabilities	6,643,245	509,425	222,979	380,048	7,755,697
3	Net interest rate gap at the end of the period	(3,759 376)	1,858,039	505,881	1,615,719	220,263
31/12/2020						
4	Total financial assets	3,035,276	1,102,765	776,103	1,261,894	6,176,038
5	Total financial liabilities	4,937,944	410,334	32,021	47,627	5,427,926
6	Net interest rate gap at the end of the period	(1,902,668)	692,431	744,082	1,214,267	748,112

Table 29.4. Monitoring of interest rates on financial instruments;

									(%)
Line	**Item**	**31/12/2021**				**31/12/2020**			
		UAH	**USD**	**EUR**	**other**	**UAH**	**USD**	**EUR**	**other**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Assets									
1	Cash and cash equivalents	-	-	-	-	-	-	-	-
2	Loans and advances to banks	-	-	-	-	-	2.20	-	-
3	Loans and advances to customers	11.62	3.24	3.36	-	11.02	5.14	4.44	-
4	Investments in securities at amortised cost	8.37	-	-	-	5.56	-	-	-
5	Investments in securities at FVTOCI	10.24	-	2.50	-	13.15	-	-	-
Liabilities									
6	Due to customers								
6.1	current accounts	0.68	0.04	0.01	-	0.71	0.14	0.07	-
6.2	term deposits	8.08	1.87	0.77	-	7.46	0.95	0.52	-
7	Debt securities issued by the Bank	-	-	-	-	-	-	-	-

Other price risk

For the Bank, another price risk arises when investing in securities. Investments in securities are made within the established limits. Approval of limits on securities transactions is carried out by the relevant

committee of the Parent Company. Limits are set in terms of issuers and individual issues of securities. Limits are set for a limited period, after which they are subject to revision.
The issue of the need to set limits is initiated by the Treasury and Markets Department of the CFO Division. Conclusions on the possibility of setting such limits are prepared by the Risk Management Department, after which the relevant materials are submitted to the relevant committee of the Parent Company. After obtaining the approval, the internal document with the specified limits is approved at the level of the Bank.
Monitoring of compliance with the established limits is carried out on a regular basis by the Risk Management Department.

Geographic risk

Geographical risk is determined by the specifics of a particular administrative or geographical area, characterized by conditions different from the average conditions of the country as a whole. Differences may relate to climatic, national, political, legislative and other features of the region that affect the borrower's condition and are part of credit risk.

Concentration of assets and liabilities by region is shown in tables 29.5 and 29.6.

Table 29.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
Assets					
1	Cash and cash equivalents	350,253	579,350	8,136	937,739
2	Loans and advances to customers	4,762,323	-	5,949	4,768,272
3	Investments in securities	3,185,489	-	-	3,185,489
4	Other financial assets	19,025	3,169	5	22,199
5	**Total assets**	**8,317,090**	**582,519**	**14,090**	**8,913,699**
Liabilities					
6	Due to customers	7,149,151	97,846	38,791	7,285,788
7	Derivative financial liabilities	-	76	-	76
8	Debt securities issued by the Bank	1	-	-	1
9	Other borrowed funds	-	343,999	-	343,999
10	Other financial liabilities	120,530	4,184	1,119	125,833
11	**Total liabilities**	**7,269,682**	**446,105**	**39,910**	**7 755,697**
12	Net balance sheet position	1,047 408	136 414	(25,820)	1,158,002

Table 29.6. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
Assets					
1	Cash and cash equivalents	400,328	602,921	2,323	1,005,572
2	Loans and advances to banks	-	282,849	-	282,849
3	Loans and advances to customers	3,094,619	-	3,696	3,098,315

(in thousands of Ukrainian hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	**2**	**3**	**4**	**5**	**6**
4	Investments in securities	2,794,875	-	-	2,794,875
5	Other financial assets	11,843	1,072	3	12,918
6	**Total assets**	**6,301,665**	**886,842**	**6,022**	**7,194,529**
Liabilities					
7	Due to banks	300,214	-	-	300,214
8	Due to customers	5,304,410	89,215	34 301	5,427,926
9	Debt securities issued by the Bank	1	-	-	1
10	Other financial liabilities	134,795	4,468	327	139,590
11	**Total liabilities**	**5,739,420**	**93,683**	**34 628**	**5,867,731**
12	Net balance sheet position	562,245	793,159	(28 606)	1,326,798
13	Credit-related commitments	-	-	-	-

Liquidity risk

Liquidity risk is an existing or potential risk for revenues and capital that arises from the bank's failure to fulfil its obligations in due time without experiencing unacceptable losses.

The Treasury and Stock Market Department of the Head Financial Department exercises control over liquidity risk management. The liquidity risk management involves the ALCO, Risk Management Department, Head Financial Department, Head Retail Department, Head Corporate Department and the parent company.

Liquidity risk management principles

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations due to its inability to raise funds on the market (financing liquidity risk) or to liquidate its assets (market liquidity risk).

Types of operations that cause liquidity risk are defined as active and passive operations with different maturities, which cause gaps in the time ranges of cash flows.

The purpose of liquidity risk management is to provide a high degree of confidence that the Bank has the ability to both meet its daily liquidity obligations and withstand periods of liquidity stress that affect both secured and unsecured funding, which may be the source of a particular bank. or the whole market.

Liquidity is managed by the Treasury and Markets Department. Liquidity risk management is supervised by the Risk Management Department.

Liquidity risk management tasks within the operating day:

- ensuring that the Bank has sufficient funds to cover planned and unplanned liquidity needs;
- ensuring the performance of banking operations in accordance with established limits, procedures and rules;
- compliance with the requirements of the NBU on liquidity standards, reserve requirements, etc.
- The liquidity management process within the operating day is managed by the Treasury and Markets Department of the CFO Division. And the liquidity risk management process is managed by the Treasury and Markets Department of the CFO Division and the Risk Management Department.
- The long-term liquidity management process is carried out by the Treasury and Markets Department of the CFO Division and the Risk Management Department.

- To reduce the impact of liquidity risk on the Bank, in addition to the actions already identified, the Risk Management Department performs the following actions:

- performs daily analysis of high quality liquid assets (HQLA) and their trends;
- assesses liquidity risk on a monthly basis by calculating LCR and NSFR (risk appetites and internal limits are met by the Bank):
- as of 31.12.2021 LCR was 193%, risk of appetite was 105% and early warning limit (EWL) was 115% (as of 31.12.2020 LCR was 353%, risk of appetite was 105% and EWL was 115%);
- as of 31.12.2021 NSFR amounted to 150%, risk-appetite is 102% and EWL - 104% (as of 31.12.2020 NSFR was 169%, risk-appetite is 100% and EWL - 102.5%);
- calculates daily / every decade the NBU's liquidity ratios:
- every decade H6 - short-term liquidity ratio (the Bank's values within the established regulatory values: as of 31.12.2021 is 82.2%, the limit is> 60%; as of 31.12.2020 is 89.4%, the limit is> 60%) ;
- daily LCR standards in all currencies (the Bank's values are within the established normative values: as of 31.12.2021 the value is 162.6%, the limit is> 100%; as of 31.12.2020 is 200.5%, the limit is> 100%);
- daily LCR ratio in foreign currencies (the Bank's values are within the established normative values: as of 31.12.2021 it is 197.3%, the limit is> 100%; as of 31.12.2020 it is 238.7% with a limit> 100%);
- NSFR ratio in all currencies every decade (the Bank's values are within the established normative values: as of December 31, 2021 it is 127.3%, the limit is> 90%);
- NSFR standard in foreign currencies and NSFR standard in hryvnia every decade (calculated every decade without the normative value of the limit set by the NBU);
- conducts monthly GAP-analysis based on contractual cash flows (GAP-analysis is carried out to analyze the possibility of compliance with NBU regulations, risk appetites, internal limits to predict the possibility of ensuring the quality of the Bank);
- monitors daily the internal concentration limits set by the relevant internal documents.

Liquidity risk management is controlled by the Treasury and Markets Department of the CFO Division. Liquidity is managed with the participation of the Assets and Liabilities Management Committee, the Risk Management Department, the General Finance Department, the Retail Business Department, the Corporate Business Department and the Parent Company.

Liquidity management in the event of a crisis due to the deterioration of the Bank's financial condition is set out in the Liquidity Management Contingency Plan (hereinafter referred to as the CLP).

The action plan provides:

- detection of primary alarms, constant monitoring of them and identification of procedures to be implemented when the lack of liquidity becomes apparent;
- legalization of actions of managers responsible for liquidity management in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- a clear list of immediate measures and interventions to address the emergency.

The Risk Management Department is responsible for monitoring the early warning indicators for CLP and reporting the status to the relevant members of the competent authorities on a daily basis. More detailed information is specified in the relevant internal document.

The Risk Management Department is responsible for developing individual high-level internal documents necessary to ensure effective liquidity risk management: policies and guidelines and key documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, as well as the escalation process, and should be approved by the relevant collegial body. Basic documents must also be approved by the relevant collegial body. The bank may combine internal documents in one or more

Table 29.7. Analysis of financial liabilities by maturities as at 31 December 2021

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2021 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
1	Due to customers	6,575,467	164,152	559,859	12,640	-	7,312,118
1.1	due to individuals	2,378,681	95,696	109,465	2,370	-	2,586,212
1.2	other	4,196,786	68,456	450,394	10,270	-	4,725,906
2	Derivative financial liabilities	76	-	-	-	-	76
3	Debt securities issued by the Bank	1	-	-	-	-	1
4	Other borrowed funds	-	-	5,634	237,061	128,219	370,914
5	Other financial liabilities	142,857	6 440	23,249	23,856	-	196,402
6	Unused credit lines	2,315,003	-	-	-	-	2,315,003
7	Financial guarantees	-	-	9,447	-	-	9,447
8	Other credit-related commitments	-	111 783	116,894	153,149	-	381,826
9	Total potential future payments under financial liabilities	9,033,404	282,375	715,083	426,076	128,209	10,585,788

Table 29.8. Analysis of financial liabilities by maturities as at 31 December 2020

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2020 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	214	300,000	-	-	300,214
2	Due to customers	4,938,945	234,127	220,458	49,357	5,442,887
2.1	due to individuals	2,038,411	151,000	103,881	7,671	2,300,963
2.2	other	2,900,534	83,127	116,577	41,686	3,141,924
3	Debt securities issued by the Bank	1	-	-	-	1
4	Other financial liabilities	140,364	7,315	23,486	23,218	194,383
5	Financial guarantees	-	-	1,743	-	1,743
6	Other credit-related commitments	2,361	-	153,743	167,472	323,576
7	Unused credit lines	2,072,168	-	-	-	2,072,168

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	2	3	4	5	6	7
8	Total potential future payments under financial liabilities	7,154,053	541,442	399,430	240,047	8,334,972

Table 29.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	937,739	-	-	-	-	937,739
2	Loans and advances to customers	1,002,825	695,115	1,074,565	1,294,097	701,670	4,768,272
3	Investments in securities	1,861,543	552,901	771,045	-	-	3,185,489
4	Other financial assets	19,501	2,698	-	-	-	22,199
5	**Total financial assets**	3,821,608	1,250,714	1,845,610	1,294,097	701,670	8,913,699
Liabilities							
6	Due to customers	6,569,977	159,372	544,242	12,197	-	7,285,788
7	Derivative financial liabilities	76	-	-	-	-	76
8	Debt securities issued by the Bank	1	-	-	-	-	1
9	Other borrowed funds	-	-	-	218,809	125,190	343,999
10	Other financial liabilities	73,191	5,769	23,021	23,852	-	125,833
11	**Total financial liabilities**	6,643,245	165,141	567,263	254,858	125,190	7,755,697
12	**Net liquidity gap as at 31 December**	(2,821,637)	1,085,573	1,278,347	1 039,239	576,480	1,158,002
13	**Cumulative liquidity gap as at 31 December**	(2,821,637)	(1,736,064)	(457,717)	581,522	1,158,002	

Maturity analysis does not reflect the historical stability of current accounts of customers. Such accounts are closed for a longer period of time than indicated in the tables above. These balances are included in amounts due on demand and less than one month.

The cumulative liquidity gap at the end of December 31, 2021 is mainly due to the fact that, given the current situation in the country, individuals and legal entities do not invest in the long term, but mostly place on demand, respectively, there is no practical possibility to avoid data gaps.

The cumulative liquidity gap arises due to the attraction of short-term funds of customers, namely funds on demand. However, the Bank does not use these funds to lend to customers. The Bank invests these funds in government securities and NBU certificates of deposit, which are highly liquid assets; they are reflected in maturities (in the case of significant outflows of customer funds, these assets can be easily converted into cash at any time), so in the period from 1 month there is a positive value of the net liquidity gap.

The Bank uses term funds of clients (in hryvnia and foreign currency) to lend to clients.

As the Bank invests free liquidity in hryvnia in government securities and NBU certificates of deposit (highly liquid assets with maturity), for the purpose of calculating the liquidity gap, highly liquid assets can be considered as demand assets. Thus, the liquidity gap, taking into account highly liquid assets for funds with maturities of up to 1 month is -1,497,691 thousand UAH.
In view of the above, the Bank does not see any significant liquidity risk due to liquidity gaps. This situation is controlled and does not lead to violations of liquidity standards.

Table 29.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	1,005,572	-	-	-	-	1,005,572
2	Loans and advances to banks	282,849	-	-	-	-	282,849
3	Loans and advances to customers	830,803	240,548	765,069	1,037,849	224,046	3,098,315
4	Investments in securities	1,921,624	147,903	725,348	-	-	2,794,875
5	Other financial assets	12,444	474	-	-	-	12,918
6	**Total financial assets**	**4,053,292**	**388,925**	**1,490,417**	**1,037,849**	**224,046**	**7,194,529**
Liabilities							
7	Due from banks	214	300,000	-	-	-	300,214
8	Due to customers	4,937,944	230,641	211,714	47,627	-	5,427,926
9	Debt securities issued by the Bank	1	-	-	-	-	1
10	Other financial liabilities	87,748	5,425	23,198	23,219	-	139,590
11	**Total financial liabilities**	**5,025,907**	**536,066**	**234,912**	**70,846**	**-**	**5,867,731**
12	**Net liquidity gap as at 31 December**	**(972,615)**	**(147,141)**	**1,255,505**	**967,003**	**224,046**	**1,326,798**
13	**Cumulative liquidity gap as at 31 December**	**(972,615)**	**(1,119,756)**	**135,749**	**1,102,752**	**1,326,798**	**-**

Operational risk

The Bank defines operational risk as the risk of loss arising from failure to perform procedures, incorrect actions of personnel or internal systems, or from external events. Operational risk also includes legal risk, ICT risk, but not strategic and reputational.
The purpose of operational risk management is the timely detection and minimization of operational risk, as well as its prevention. The priority is to ensure maximum preservation of assets and capital by reducing or preventing possible losses.
The Risk Management Department oversees the operational risk management process. The Risk Management Department is responsible for appointing Risk Coordinators (ORMRs) - the responsible officer of the Bank's operational risk unit responsible for managing operational risks in its unit.
To reduce the impact of operational risk on the Bank, in addition to the actions already identified, the Risk Management Department performs the following actions:

- coordinates the appointment of risk coordinators;
- conducts regular trainings and tests for risk coordinators;
- manages the database of operational risk events;
- develops, monitors and reports on key risk indicators;

- annually carries out the process of self-diagnosis, which includes: assessment of the business environment and scenario analysis.

The main objectives of operational risk management are timely detection and minimization of operational risk, as well as its prevention. Priority is given to ensuring maximum preservation of assets and capital by reducing or preventing possible losses. The Bank adopts a strategy for operational risk management based on sound management principles and aimed at ensuring long-term strength and continuity for the Bank, as well as achieving an optimal balance between growth and profitability and emerging risks.

The Risk Management Department is responsible for developing individual high-level internal documents necessary to ensure effective operational risk management: policies, guidelines and key documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, as well as the escalation process, and should be approved by the relevant collegial body. Basic documents must also be approved by the relevant collegial body. The bank may combine internal documents in one or more.

Risks to the environment, social issues and internal corporate relations

The Risk Management Department is responsible for managing the Bank's environmental, social and internal corporate risks based on applicable laws and regulations of the Parent Company.

Assessing the risk profile for the environment, social issues and internal corporate relations of products / transactions, with the support of other control units and business units is also part of the activities of the Risk Management Department.

Note 30. Capital management

The Bank's shareholders pay sufficient attention to the increase of capital, namely the increase of the authorized capital as the main component of the capital.

The Bank's capital is formed for the purpose of:

- highly profitable use of own funds;
- coverage of all possible types of risks assumed by the Bank;
- optimization of the structure of assets and liabilities in terms of raising and placing funds.

As of December 31, 2021, in accordance with the requirements of the NBU, banks must maintain a regulatory capital adequacy ratio of at least 10% and a fixed capital adequacy ratio of at least 7% in relation to risk-weighted assets calculated in accordance with NBU regulations.

As at 31 December 2021 and 2020, the Bank complied with the regulatory capital adequacy ratio (H2) with a rate of 19.82% (31 December 2020: 35.65%) and the fixed capital adequacy ratio (H3) with a rate of 18.82% (31 December 2020: 34.11%).

Table 30.1. Structure of regulatory capital calculated according to the NBU requirements

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
1	**Main capital (Tier 1)**	**1,078,564**	**1,294,961**
2	Share capital	979,090	979,090
3	Share premium	4,600,449	4,600,449
4	Total reserves under Ukrainian legislation	1,332	1,332
5	Intangible assets	(541,932)	(490,098)
6	Amortisation of other intangible assets	423,051	384,057
7	Capital investments in intangible assets	(31,128)	(26,189)
8	Uncovered losses of past years	(4,066,593)	(3,889,287)

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2021**	**31/12/2020**
1	**2**	**3**	**4**
9	Result of the current year (loss)	(279,316)	(264,393)
10	Amount of non-banking assests deducted from main capital	(6,389)	-
11	**Additional capital (Tier 2)**	**57,305**	**58,521**
12	Result on PP&E revaluation	57,305	58,521
13	**Deductions**	**(3)**	**(3)**
14	Carrying amount of securities that are not traded on stock exchanges carried at FV	(3)	(3)
15	**Total regulatory capital**	**1,135,866**	**1,353,479**

Note 31. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The determination of fair value is based on the assumption that the Bank will continue in operation in the future without any need to liquidate or significantly reduce the volume of operations or to conduct operations on unfavorable terms. Fair value reflects the credit quality of the instrument because it involves the risk that the counterparty will default.

The fair value of financial instruments is determined using prices obtained in financial markets in the case of instruments quoted in an active market or by internal valuation techniques in the case of other financial instruments. A market is considered active if quotations are readily and regularly available (through an exchange, dealer, broker, industry group, price information service or regulator) and reflect actual and regular market transactions between independent parties.

When the market does not function regularly, ie when there is insufficient volatility and a constant number of transactions in the market and the difference between the purchase and sale price is insufficient, the fair value of financial instruments is determined mainly by valuation techniques to determine the price of a hypothetical commercial transaction. between independent parties, as of the date of assessment.

Table 31.1. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2021

(in thousands of Ukrainian hryvnias)						
	Item	**Fair value by different valuation techniques as at 31 December 2021**			**Total fair value**	**Total carrying amount**
		Quoted market price (Level 1)	**Valuation technique using observable inputs (Level 2)**	**Valuation technique using unobservable inputs (Level 3)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	937,739	-	937,739	937,739
2	Loans and advances to customers	-	-	4,869,998	4,869,998	4,768,272

(in thousands of Ukrainian hryvnias)

	Item	Fair value by different valuation techniques as at 31 December 2021			Total fair value	Total carrying amount
		Quoted market price (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using unobservable inputs (Level 3)		
1	2	3	4	5	6	7
3	Investments in securities at FVTOCI	991 385	-	443 469	1,434 854	1 434 854
4	Investments in securities at AC	-	1,750,635	-	1,750,635	1,750,635
5	Other financial assets		-	22,199	22,199	22,199
	FINANCIAL LIABILITIES					
6	Due to customers	-	7,292,144	-	7,292,144	7,285,788
7	Derivative financial liabilities	-	76	-	76	76
8	Debt securities issued by the Bank	-	1	-	1	1
9	Other borrowed funds		343,999		343,999	343,999
10	Other financial liabilities	-	-	125,833	125,833	125,833

Table 31.2. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2020

(in thousands of Ukrainian hryvnias)

	Item	Fair value by different valuation techniques as at 31 December 2020			Total fair value	Total carrying amount
		Quoted market price (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using unobservable inputs (Level 3)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	1,005,572	-	1,005,572	1,005,572
2	Loans and advances to banks	-	282,849	-	282,849	282,849
3	Loans and advances to customers	-	-	3,081,325	3,081,325	3,081,325
4	Investments in securities FVTOCI	-	1,194,481	3	1,194,484	1,194,484
5	Investments in securities AC	-	1,600,391	-	1,600,391	1,600,391
6	Other financial assets	-	-	12,918	12,918	12,918
	FINANCIAL LIABILITIES					
6	Due to banks	-	300,214	-	300,214	300,214
7	Due to customers	-	5,429,036	-	5,429,036	5,429,036
8	Debt securities issued by the Bank	-	1	-	1	1
9	Other financial liabilities	-	-	139,590	139,590	139,590

The Bank uses the following hierarchy when measuring and disclosing the fair value of financial instruments based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that have a significant effect on the reported fair value and are observable on the market, either directly or indirectly;

Level 3: inputs that have a significant effect on the reported fair value and are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a maturity of less than one month from the reporting date, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable-rate financial instruments, loans issued or deposits placed less than one month before the reporting date.

Fixed-income financial instruments

The fair value of fixed-income financial assets and liabilities carried at amortised cost is measured by comparing market interest rates as at their recognition to current market rates offered for similar financial instruments. The fair value of loans and deposits is calculated by discounted cash flows model using discount rates for assets and liabilities with a similar credit risk and maturity.

For quoted shares and debt securities, the fair values are calculated based on quoted market prices in active markets for identical assets or liabilities. Where shares and debt securities unquoted in active markets, a discounted cash flow model is used by reference to the yield to maturity for similar financial instruments quoted in active financial markets.

Table 31.3. Significant unobservable inputs used in measuring instruments categorised within Level 3 of the fair value hierarchy

						(in thousands of Ukrainian hryvnias)
Year	**Type of instrument**	**Fair value**	**Valuation model**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Fair value sensitivity to unobservable inputs**
1	**2**	**3**	**4**	**5**	**6**	**7**
2021	Loans and advances to customers	4,869,998	Discounting of cash flows	Discount rate	Currency: UAH 5.99 – 20.99% Other currencies: 1.46 – 7%	Significant increase of discount rate results in lower values of fair value
2020	Loans and advances to customers	3,081,325	Discounting of cash flows	Discount rate	Currency: UAH 10.46 – 31.74% Other currencies: 1.4 – 7%	Significant increase of discount rate results in lower values of fair value
2021	Investments in securities	443,469	Discounting of cash flows	Discount rate	Currency: UAH 10.21% – 10.58% Other currencies:	Significant increase of discount rate results in lower values of fair

(in thousands of Ukrainian hryvnias)						
Year	**Type of instrument**	**Fair value**	**Valuation model**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Fair value sensitivity to unobservable inputs**
1	**2**	**3**	**4**	**5**	**6**	**7**
					1.9%	value

Note 32. Presentation of financial instruments by measurement categories

Table 32.1. Financial assets by measurement categories as at 31 December 2021

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	937,739	-	937,739
2	Loans and advances to customers:	4,768,272	-	4,768,272
2.1.	corporate loans	3,184,830	-	3,184,830
2.2.	mortgages of individuals	927,270	-	927,270
2.3.	retail loans	3	-	3
2.4.	other loans to individuals	705,217	-	705,217
2.5.	Other loans granted to individuals	7	-	7
2.6.	Provision for loan impairment	(49,055)	-	(49,055)
3	Investments in securities	1,750,635	1,434,854	3,185,489
3.1	Investments in securities at AC	1,750,635	-	1,750,635
3.2	Investments in securities at FVTOCI	-	1,434,902	1,434,902
3.3	Provision for negotiable securities refinanced by the National Bank of Ukraine, at FVTOCI	-	(51)	(51)
3.4	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	-	34	34
3.5	Provision for impairment of securities at FVTOCI	-	(31)	(31)
4	Other financial assets:	22,199	-	22,199
4.1.	Accounts receivable from transactions with customers	14,455	-	14,455
4.2.	Amounts due on accrued income from cash and settlement services and other accrued income	2,318	-	2,318
4.3.	Accounts receivable on credit and debit card transactions	15,588	-	15,588
4.4.	Other assets	20	-	20
4.5.	Provision for impairment	(10,182)	-	(10,182)
5	**Total financial assets**	**7,478,845**	**1,434,854**	**8,913,699**

Table 32.2. Financial assets by measurement categories as at 31 December 2020

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	1,005,572	-	1,005,572
2	Loans and advances to banks	282,849	-	282,849
3	Loans and advances to customers:	3,098,315	-	3,098,315
3.1.	corporate loans	2,360,871	-	2,360,871
3.2.	mortgages of individuals	297,919	-	297,919
3.3.	retail loans	485,030	-	485,030
3.4.	other loans to individuals	145	-	145
3.5	Provision for loan impairment	(45,650)	-	(45,650)
4	Investments in securities	1,600,391	1,194,484	2 794 875
4.1	Investments in securities at AC	1,600,391	-	1,600,391
4.2	Investments in securities at FVTOCI	-	1,194,481	1,194,481
4.3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	-	34	34
4.3	Provision for impairment of securities at FVTOCI	-	(31)	(31)
5	Other financial assets:	12,918		12,918
5.1.	Accounts receivable from transactions with customers	12,773	-	12,773
5.2.	Amounts due on accrued income from cash and settlement services and other accrued income	2,372	-	2,372
5.3.	Accounts receivable on credit and debit card transactions	8,266	-	8,266
5.4.	Other assets	20	-	20
5.5.	Provision for impairment	(10,513)	-	(10,513)
6	**Total financial assets**	**6,000,045**	**1,194,484**	**7,194,529**

Note 33. Related-party transactions

The methods of valuing assets and liabilities used in recognizing related party transactions do not differ from those used in recognizing transactions with other parties.

Agreements with persons related to the Bank do not provide more favorable terms than agreements with other persons.

The Bank's transactions with related parties during the year ended 31 December 2021 did not have a material impact on the Bank's financial results.

Related parties are jointly controlled entities, members of the Supervisory Board, key management personnel and their immediate relatives, as well as companies in which shareholders, key management personnel or their close relatives exercise control or significant influence.

Table 33.1. Balances on related-party transactions as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	450,146	-	on demand	3 727	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	11	-	on demand	-	-	-
3	Other financial assets	20	-	2 - 31 days	-	-	-	-	-	-	-	-	-
4	Other non-financial assets	40	-	on demand	-	-	-	-	-	-	-	-	-
5	Other financial liabilities	3,185	-	on demand - less than 31 days	-	-	-	902	-	on demand	-	-	-
6	Other non-financial liabilities							18,951		on demand			
	Key management personnel												
7	Loans and advances to customers	433	12-13%	2 days – 5 years	-	-	-	-	-	-	-	-	-
8	Loan loss provisions	3	-	more than 5 years	-	-	-	-	-	-	-	-	-
9	Due to customers	2,546	0 - 5%	on demand - less than 365 days	1,047	0.01 %	on demand	644	0.01 %	on demand -	91	-	on demand
11	Other financial liabilities	2,367	-	on demand - less than 365 days	-	-	-	-	-	-	-	-	-
12	Other non-financial liabilities	1,156	-	on demand - 2 years	-		-	-	-	-	-	-	-
	Other related parties												

(in thousands of Ukrainian hryvnias)													
Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
13	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	1 972	-	on demand
14	Other non-financial liabilities	-	-	-	-	-	-	104	-	on demand	-	-	-

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, key management personnel or their close family members.

Table 33.2. Income and expenses on related-party transactions as at 31 December 2021 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
1	2	3	4	5
1	Interest income	75	32	-
2	Interest expenses	(8)	(32)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	(6)	(1)	-
4	Net profit from foreign exchange	22,789	-	-
5	Net gain/(loss) from foreign currency translation	(103,671)	327	(115)
6	Fee and commission income	261	35	-
7	Fee and commission expenses	(1,890)	-	(14)
8	Employee benefits expense	-	(25,045)	-
9	Other administrative and operating expenses	(36,293)	(6,994)	(765)

Table 33.3. Loans granted to and repaid by related parties during 2021

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	*2*	*3*	*4*
1	Loans granted to related parties	(3,305,883)	-
2	Loans repaid by related parties	3,588,746	8

Table 33.4. Other rights and obligations on related-party transactions as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	2	3	4
1	Guarantees received	84,249	1,056
2	Currency liabilities under swap contracts	81,835	-

Table 33.5. Balances on related-party transactions as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	106,875	-	on demand	2,625	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	6	-	on demand	-	-	-
3	Loans and advances to banks	-	-	-	282,864	1,9-2,5%	2 - 31 days	-	-	-	-	-	-
4	Provision for impairment of loans and advances to banks	-	-	-	15	-	2 - 31 days	-	-	-	-	-	-
5	Other financial assets	20	-	2 - 31 days	-	-	-	-	-	-	-	-	-
6	Other non-financial assets	3,344	-	on demand	-	-	-	1,014	-	on demand	-	-	-
7	Other financial liabilities	-	-	-	-	-	-	14,876	-	on demand	-	-	-
	Key management personnel												
8	Loans and advances to customers	208	12%	2 day – 5 years	-	-	-	-	-	-	-	-	-
9	Loan loss provisions	1	-	more than 5 years	-	-	-	-	-	-	-	-	-
10	Due to customers	627	0 - 9%	on demand - less than 183 days	2,271	0.01%	on demand - less than 31 days	3,515	0.01%	on demand - less than 31 days	80	-	on demand
11	Other financial liabilities	5,890	-	on demand - less than 2 years	-	-	-	-	-	-	-	-	-

(in thousands of Ukrainian hryvnias)													
Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**Denominated in foreign currencies**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
12	Other non-financial liabilities	5,540	-	on demand - less than 31 days	-		-	-	-	-	-	-	-
	Other related parties												
13	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	2,143	-	on demand
14	Other non-financial liabilities	-	-	-	-	-	-	111	-	on demand	-	-	-

Table 33.6. Income and expenses on related-party transactions as at 31 December 2020and for the year then ended

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**	**Other related parties**
1	**2**	**3**	**4**	**5**
1	Interest income	1,309	41	-
2	Interest expenses	-	(44)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	(5)	(3)	-
4	Net profit from foreign exchange	7,995	-	-
5	Net gain/(loss) from foreign currency translation	150,026	(796)	(870)
6	Fee and commission income	255	12	-
7	Fee and commission expenses	(1,998)	-	(14)
8	Employee benefits expense	-	(23,136)	-
9	Othe roperating income	-	-	1,121
10	Other administrative and operating expenses	(25,664)	(7,874)	(772)

Table 33.7. Loans granted to and repaid by related parties during 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**
1	***2***	***3***	***4***
1	Loans granted to related parties	(10,879,603)	(9)
2	Loans repaid by related parties	10,964,597	-

Table 33.8. Other rights and obligations on related-party transactions as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**
1	**2**	**3**	**4**
1	Guarantees received	6,948	-

Table 33.9. Remuneration to key management personnel

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**expenses for 2021**	**accrued liabilities as at 31/12/2021**	**expenses for 2020**	**Accrued liabilities as at 31/12/2020**
1	**2**	**3**	**4**	**5**	**6**
1	Current employee benefits	25,045	1,153	26,136	6,439

The shareholder of JSC "PRAVEX BANK" is an Italian group of companies – Intesa Sanpaolo Group.