JOINT-STOCK COMPANY

“PRAVEX BANK”

Financial statements as at 31 December 2022 and for the year then ended

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			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
ASSETS			
Cash and cash equivalents	6	2,409,276	937,739
Loans and advances to banks	7	132,464	-
Loans and advances to customers	8	3,694,851	4,768,272
Investments in securities	9	3,344,212	3,185,489
Investment property	10	6,831	12,777
Current income tax receivable		29	29
Intangible assets other than goodwill	11	155,190	151,398
Fixed assets	11	393,728	318,004
Other financial assets	12	46,341	22,199
Other non-financial assets	13	27,060	16,215
Non-current assets held for sale and discontinued operations		6,070	-
Total assets		**10,216,052**	**9,412,122**
EQUITY AND LIABILITIES			
LIABILITIES			
Due to customers	14	8,215,775	7,285,788
Derivative financial liabilities		-	76
Debt securities issued by the Bank		1	1
Other borrowed funds	15	449,191	343,999
Provisions for liabilities			
Provisions for credit related commitments and financial guarantees	16	43,397	9,421
Other collateral	17	114,538	88,585
Total amount of collateral		**157,935**	**98,006**
Other financial liabilities	18	172,151	125,833
Other non-financial liabilities	19	88,823	70,569
Deferred tax liabilities	28	31,475	9,237
Total liabilities		**9,115,351**	**7,933,509**
EQUITY			
Share capital	20	1,048,726	1,048,726
Retained earnings (uncovered loss)		(4,817,972)	(4,402,783)
Issue income	20	4,600,754	4,600,754
Reserves and other funds		1,332	1,332
Other reserves	21	267,861	230,584
Total equity		**1,100,701**	**1,478,613**
Total liabilities and equity		**10,216,052**	**9,412,122**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Stefano Burani**

Chief accountant
JSC "PRAVEX BANK" **Hanna Baranovska**

DATE: 12 April 2023

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
Interest income, including	23	902,462	552,191
Interest income calculated using the effective interest rate method	23	902,462	552,191
Fee and commission income	24	136,830	173,085
Fee and commission expenses	24	(57,903)	(60,203)
Other income	26	12,838	15,242
Interest expenses	23	(362,395)	(177,930)
Net gain (loss) from foreign exchange operations		77,985	38,819
Net gain (loss) arising from foreign currency translation		(2,298)	(20,904)
Net (loss) from investment property revaluation	10	763	(2,639)
Gains (losses) from initial recognition of financial assets at interest rates higher or lower than market rates		163	-
Gains (losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		(150)	40
Impairment gains (losses) determined in accordance with IFRS 9	25	(294,857)	9,859
Net profit/(loss) from transactions with debt financial instruments accounted for at fair value through other comprehensive income		(1,198)	-
Gain/(loss) from derecognition of financial assets measured at amortized cost		-	(604)
Gain/(loss) from derecognition of financial liabilities measured at amortized cost		696	29
Employee benefits expense		(356,025)	(297,941)
Depreciation costs		(99,590)	(93,120)
Other administrative and operating expenses	27	(358,758)	(402,173)
Profit (loss) before tax		**(401,437)**	**(266,249)**
Income from tax refund (expenses for tax payment)	28	(13,769)	-
Profit (loss)		**(415,206)**	**(266,249)**
Profit per share			
Basic profit (loss) per share from continuing operations	29	(0.25)	(0.16)
Total basic profit (loss) per share	29	(0.25)	(0.16)

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			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**2022**	**2021**
1	**2**	**3**	**4**
Statement of comprehensive income			
Profit (loss)		(415,206)	(266,249)
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)	21	46,620	25,503
The total amount of other comprehensive income that will not be reclassified to profit or loss before tax		**46,620**	**25,503**
Components of other comprehensive income that will be reclassified to profit or loss before tax			
Gains (losses) on financial assets carried at FVTOCI before tax	21	(879)	3,632
The total amount of other comprehensive income that will be reclassified to profit or loss before tax		**(879)**	**3,632**
Total other comprehensive income before tax		**45,741**	**29,135**
Total comprehensive income before tax		**(369,465)**	**(237,114)**
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)	21	(8,421)	(4,058)
Total of income tax relating to components of other comprehensive income that will not be reclassified to profit or loss		**(8,421)**	**(4,058)**
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 carried at FVTOCI	21	(47)	47
Total of income tax related of gains (losses) on financial assets carried at FVTOCI		**(47)**	**47**
Total other comprehensive income after tax		**37,273**	**25,124**
Total comprehensive income after tax		**(377,933)**	**(241,125)**

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			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		919,867	581,712
Interest expenses paid		(352,867)	(168,266)
Fee income received		136,830	173,228
Fee and commission expenses paid		(50,800)	(60,203)
Results of foreign currency transactions		77,985	38,819
Other income received		2,493	12,256
Personnel costs		(344,680)	(296,511)
Other administrative and operating expenses, paid		(377,287)	(345,275)
Income tax paid		(13,769)	-
Cash used in operating activities before changes in operating assets and liabilities		**(2,228)**	**(64,240)**
Net decrease/(increase) in loans and advances to banks		(129,850)	274,170
Net (increase) in loans and advances to customers		1,247,883	(1,716,808)
Net decrease in other financial assets		(19,344)	(9,588)
Net decrease in other non-financial assets		(9,154)	2,630
Net increase/(decrease) in amounts due to banks		-	(300,214)
Net increase/(decrease) in amounts due to customers		280,302	1,985,084
Net increase/(decrease) in other financial liabilities		18,047	(21,736)
Net increase/(decrease) in other non-financial liabilities		16,342	6,861
Net cash flows from operating activities		**1,401,998**	**156,159**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities		(480,623,254)	(153,349,503)
Proceeds from the sale of investments in securities		480,436,279	152,941,988
Acquisition of property, plant and equipment		(50,439)	(19,130)
Proceeds from the sale of investment property		-	15,764
Result from disposal of property, plant and equipment and intangible assets		40	5,227
Acquisition of intangible assets		(52,868)	(58,485)
Net cash from investing activities		**(290,242)**	**(464,139)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Other borrowed funds received		-	343,999
Net decrease in cash and cash equivalents		**1,111,756**	**36,018**

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The accompanying notes on pages 9 – 102 are an integral part of these financial

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
Effect of the NBU exchange rate fluctuations on cash and cash equivalents		359,781	(103,851)
Cash and cash equivalents at the beginning of the period	6	**937,739**	**1,005,572**
Cash and cash equivalents at the end of the period	6	**2,409,276**	**937,739**

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(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 2021	20	**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)**
(loss) for 2021		**-**	**-**	**-**	-	(266,249)	**(266,249)**	**(266,249)**
other comprehensive income		**-**	**-**	**-**	25,124	-	**25,124**	**25,124**
Amortisation of property, plant and equipment revaluation reserve or realised revaluation surplus/deficit	21	**-**	**-**	**-**	(5,362)	5,362	**-**	**-**
Transactions with shareholders	21	**-**	**-**	**-**	(94)	134	**40**	**40**
Closing balance as at 31 December 2021 (balance as at 1 January 2022)	20	**1,048,726**	**4,600,754**	**1,332**	**230,584**	**(4,402,783)**	**1,478,613**	**1,478,613**

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(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 2021 (balance as at 1 January 2022)	20	**1,048,726**	**4,600,754**	**1,332**	**230,584**	**(4,402,783)**	**1,478,613**	**1,478,613**
Total comprehensive income		**-**	**-**	**-**	**37,273**	**(415,206)**	**(377,933)**	**(377,933)**
(Loss) for 2022		**-**	**-**	**-**	-	(415,206)	**(415,206)**	**(415,206)**
other comprehensive income		**-**	**-**	**-**	37,273	-	**37,273**	**37,273**
Transactions with shareholders	21	**-**	**-**	**-**	4	17	**21**	**21**
Closing balance as at 31 December 2022 (balance as at 1 January 2023)	**20**	**1,048,726**	**4,600,754**	**1,332**	**267,861**	**(4,817,972)**	**1,100,701**	**1,100,701**

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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 2022
Reporting currency and measurement unit	UAH '000

JSC "PRAVEX BANK" (hereinafter - the Bank) is a universal financial organization that provides a full range of banking services throughout the territory of Ukraine. Thanks to a well-developed network, JSC "PRAVEX BANK" is represented in all corners of our country. In combination with an impeccable 29-year history of successful activity, this allowed the Bank to become one of the most famous banking brands in Ukraine. JSC "PRAVEX BANK" is part of the Intesa Sanpaolo banking group, which is one of the leading banking groups in the Eurozone and is a leader in all areas of Italian business.

Note 2. Economic and operational environment of the Bank

The Bank operates in Ukraine, whose economy belongs to the category of developing countries.

At the end of February 2022, russia started a full-scale war against Ukraine, accompanied by active hostilities in many regions of the country. As a result of the war, the assets of many enterprises were physically destroyed, supply chains and production processes were disrupted, transport infrastructure was destroyed in areas directly affected by military actions, which ensured uneven distribution of supply by region, and business costs increased. At the same time, the country has faced significant population losses and a significant increase in forced migration.

The loss of human capital and the destruction of infrastructure, particularly energy infrastructure, as a result of further russian terrorist attacks and hostilities led to a deep decline in the economy in 2022 and will hold back its recovery in the future.

At the same time, in the third quarter of 2022, the economy of Ukraine gradually began to recover. This was facilitated by stabilization at the front due to the liberation of the Armed Forces of a large number of territories occupied in 2022, and accordingly, production and supply chains began to slowly adjust. Also, the revival of the economy was influenced by the conclusion of the agreement on the operation of the "grain corridor", which contributed to a significant increase in the export of agricultural products, supported transport and other services to the second quarter.

However, starting from October 2022, a significant risk has appeared for Ukraine and the economy as a whole - significant interruptions in electricity supply due to regular and large-scale shelling of the energy infrastructure. A constant shortage of electricity leads to business downtime, complicates logistics and sales. Therefore, in the IV quarter of 2022, production volumes began to decrease again. Energy problems deplete the resources of enterprises, reduce their solvency and increase credit risks, and some companies may stop operating altogether.

As a result, the strengthening of the negative consequences of hostilities, the risk of further terrorist attacks against critical infrastructure and its long-term restoration, a reduction in production, a decrease in real incomes of the population under the pressure of high inflation and further devaluation of the hryvnia, depressed domestic demand complicate economic activity and the recovery of the country as a whole.

During the period of martial law, the Government and the NBU adopted the following measures to minimize the level of inflation:

- temporary fixation of the exchange rate of the hryvnia, which will restrain the likely deterioration of expectations and the increase in the price of imported goods;
- revised NBU discount rate; reduction of taxes, including indirect taxation of imports;
- fixing prices for housing and communal services;
- administrative regulation of prices for a number of food products and fuel.

Fixing the exchange rate and maintaining administrative restrictions on currency transactions will remain an important prerequisite for maintaining macroeconomic stability in Ukraine.

Under martial law, the banking system remained stable and liquid. Banks continue to operate smoothly, maintain liquidity, have sufficient capital reserves and continue lending. The work of bank branches in liberated and free regions has resumed almost in full. At the same time, banks managed to withstand the onslaught of numerous cyberattacks, which have significantly increased since February 2022. To save databases, banks were allowed to move them to cloud storage in Europe, the USA and Canada.

Depositors' trust in banks was preserved: the volume of customer funds in banks continued to grow, primarily hryvnia funds of the population and business deposits in foreign currency, thanks to which the level of liquidity remained high, despite the war. The increase in the amount of funds in the accounts of the population was primarily due to funds on demand, while time deposits are decreasing. In order to stimulate banks to improve the structure of their obligations, namely to extend their terms, the NBU is increasing the obligatory reserve level for current accounts from January 2023.

Continuity of payments and operation of the network of branches contributed to maintaining trust in banks. Despite the war and constant missile attacks, business and population payments were made without interruption. Banks have developed and started implementing measures to counteract the consequences of the blackout. The list of branches that work even in the absence of electricity and communication for a long time has been determined. Therefore, in order to establish uninterrupted operations and reduce the impact of operational risks, banks incurred significant additional costs to ensure the full functioning of their branches.

In the second half of 2022, the net hryvnia corporate portfolio of banks began to shrink. For the retail portfolio, this trend has been more noticeable since the start of the full-scale war. The main reason is the formation of reserves for loans due to the deterioration of borrowers' solvency and the repayment of previously issued loans, which is not compensated by new issues. During the war, state programs play a key role in supporting lending.

In June, the NBU sharply increased the key policy rate from 10% to 25% to ensure the attractiveness of hryvnia deposits. This decision prompted banks to raise rates on hryvnia deposits.

Since the beginning of 2022, international rating agencies have lowered the long-term default rating of the issuer of Ukraine in foreign currency in connection with the start of the war with Russia, namely:

- Fitch Ratings lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B" to "CC";
- Standart and Pools lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B" to "CCC+-";
- Moodys has lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B3" to "Caa3".

As a result of military actions and the occupation of a certain territory of Ukraine, access to a number of branches of the Bank is limited. The Bank conducted an analysis of losses and damages based on available information as at December 31, 2022. Based on the results of this analysis, in 2022 the Bank recognised a provision for cash balances in the Bank's branches in the amount of UAH 2,167 thousands (Note 6), and also recognized the impairment of the Bank's fixed assets in the amount of UAH 3,901 thousands (Note 11). Starting from 24 February 2022 and until 31 December 2022, the Bank incurred other additional costs as a result of full-scale invasion to the territory of Ukraine, in particular:

- expenses for the recognition of provision for expected credit losses on financial assets and credit related commitments , as a result of increased credit risks and assessments of collateral damage in the amount of UAH 277,325 thousands (Note 8);
- expenses for support of operational activity in emergency conditions and staff costs. In March 2022 the Bank paid additional allowance to its employees of UAH 23,051 thousands (gross including taxes). The bank purchased generators worth UAH 2,800 thousand, computer, network, security equipment worth UAH 3,600 thousands, and software worth UAH UAH 9,300 thousands (Note 11).

The russian military invasion of Ukrainecontinues to pose significant risks to the country's economic growth, financial stability, foreign policy and public finances. Also, there are increased risks regarding the servicing of the national debt of Ukraine due to the russian invasion, as well as a longer duration of active hostilities.

These financial statements reflect the management's current assessment of the impact of the operating conditions in Ukraine on the Bank's operations and financial condition during the war. Future conditions for the Bank’s operations may differ from management's 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 related financial instruments, financial assets at fair value through other comprehensive income at fair value.

Valuation uncertainty

The preparation of financial statements in accordance with IFRS requires the management to formulate 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 scores are recognised in the period in which the scores are revised and in all subsequent periods. Further information on estimates is disclosed in Note 4.2 Critical Accounting Trial and Estimates.

Going concern

These financial statements have been prepared on the basis of the assumption that the Bank continues as a going concern for the foreseeable future. During the preparation of these financial statements, the Bank conducted an analysis of its ability to continue its activities, taking into account the circumstances caused by the by the russian federation's military invasion in Ukraine (Note 2) and their impact on the Bank's financial condition and results.

Despite the strengthening of the negative consequences of hostilities, the risk of further terrorist attacks against critical infrastructure and its long-term restoration, production cuts, a decrease in real incomes of the population under the pressure of high inflation and further devaluation of the hryvnia, depressed domestic demand, which complicate economic activity and the recovery of the country as a whole, The Bank plans to actively continue to work and provide for its activities with an emphasis on maintaining a high level of liquidity and solvency.

Within the framework of strategic business areas on:

- further strengthening of the protection of information systems, installation and optimization of means of preventing cyber attacks;
- the growth in average amounts of customer deposits, which in turn will ensure the preservation of a high level of liquidity;
- managing the level of asset quality, taking into account the needs of customers and special circumstances in such a way as to minimize losses and the level of NPLs;
- digitalization of the product chain and improvement of online customer service;
- reduction and further optimization of operational and administrative costs, including through constant negotiations with suppliers to maintain the cost of services at the current level, despite the significant increase in inflation and devaluation of the hryvnia.

The Bank is working, and plans to work in the future, in compliance with all regulatory requirements and within the limits of the current legal framework.

The Bank analyzed the further impact of military aggression against Ukraine on its financial condition and future financial results. The Bank's estimates and forecasts for the next 12 months are based on the following assumptions:

- the Bank's macroeconomic forecast, compiled taking into account the forecasts of the National Bank of Ukraine and posted in international information and analytical systems. The Bank expects further devaluation of hryvnias against major currencies (by 15%-20%), inflation slow down to 20%, low growth of GDP and key policy rate at current level;
- the funds of the Bank's clients (including current accounts) will grow in average volumes to maintain an acceptable level of liquidity, investments in NBU's monetary instruments and ensure financing of the Bank's loan portfolio;
- the credit portfolio of the retail business will decrease due to the repayment of debt by customers and the absence of crediting plans in the next year;
- for corporate clients – the Bank plans very discreet and careful lending to critical industries, enterprises of the agro-industrial complex in safe regions, including under state programs, mostly within the current credit limits;
- the Bank expects a further increase in credit risk, which will lead to the recognition of additional reserves for expected credit losses;

- the Management of the Bank will continue to implement measures to optimize operating expenses, which will partially compensate for the negative impact of macroeconomic factors on the growth of their volume. At the same time, additional expenses related to the restoration of the functioning of the network of bank branches, the increase in the cost of goods and services due to the devaluation of the national currency and the strengthening of inflationary expectations are possible;

- The Bank plans to take additional measures to increase the regulatory capital primarily through capital contributions in order to ensure its activity and compliance with prudential rations in accordance with the current legislation in the context of the currently applicable Martial law regime;

- The Bank expects to obtain capital contributions during next 12 months as foreseen in the 2023 Financial Plan (Budget), as approved by the Supervisory Board. The ability of the Bank to continue to comply with prudential ratios depends on the timing and amount of capital contributions from the Parent. Although as of the date of the financial statements no formal decisions have yet been taken in this respect, the aforementioned Financial Plan foresees capital contributions over the course of the year. Subsequent to the reporting date, the Bank received a support letter from the Parent, confirming that the Parent will provide in a period of at least twelve months from the date of approval of the Bank's statutory financial statements the necessary support under the conditions and in accordance with the 2023 Financial Plan (Budget). Such support may imply the capital contributions to be released over the course of the year, bearing in mind the applicable prudential regulations of Ukraine and the current regime of the Martial law

- There is material uncertainty related to the currently unforeseeable impact of ongoing hostilities in Ukraine, and the ability of the Bank to execute the abovementioned actions based on Management's underlying assumptions. This may cast significant doubt as to the Bank's ability to continue as a going concern, therefore not being able to realize its assets and repay its liabilities in the ordinary course of business.

However, and despite the material uncertainty, the Bank's Management, based on forecast liquidity and capital adequacy indicators, the amount of expected credit losses, believes that there are sufficient grounds for preparing these financial statements based on a going concern basis.

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 senior 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 to the financial statements, and is prepared to adjust its operational plans accordingly. Management staff 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 separate impact of the pandemic on the financial statements is disclosed in the notes 8.1 and 24 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. Use of accounting estimates and assumptions

The preparation of financial statements requires the management to make 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 formulate reasonable assumptions when assessing results of operations. 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 should make its subjective estimates regarding the following:

- estimate of expected losses from loans and other financial assets;
- estimates and assumptions with regard to acquiring 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.

Changes in estimates regarding the probability of repayment of loans may affect the amount of recognized impairment losses. For example, if the net present value of the estimated cash flows differs by plus/minus one percent, the impairment of loans as of December 31, 2022 will be UAH 36,949 thousands less/greater (December 31, 2021: UAH 47,682 thousands).

4.3. Changes in accounting policies

The Bank has applied for the first time some amendments to the standards that became effective for annual periods beginning on or after January 1, 2022. The Bank has not early applied any standards, clarifications or amendments that have been issued but have not entered into force.

The new and revised standards and interpretations listed below became effective in the reporting year, but they did not have an impact on these financial statements.

Amendments to IFRS 3 - Reference to Conceptual Frameworks.

In May 2020, the IFRS Council issued amendments to IFRS 3 "Business Combinations" - "Reference to Conceptual Frameworks". The purpose of these changes is to replace the reference to the Concept for the Preparation and Presentation of Financial Statements, issued in 1989, with the reference to the Conceptual Basis for the Presentation of Financial Statements, issued in March 2018, without making significant changes to the requirements of the standard.

The Board also added an exception to the recognition principle in IFRS 3 to avoid potential '2nd day' gains or losses for liabilities and contingent liabilities that would fall within the scope of IAS 37 or Explanation (IFRIC) 21 "Mandatory payments" if they arise within the scope of individual transactions.

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

Amendments to IAS 37 - "Onerous contracts - contract performance costs"

In May 2020, the IFRS Board issued amendments to IFRS 37 that clarify which costs an entity should consider when assessing whether a contract is onerous or loss-making.

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

IFRS 9 "Financial instruments" - "Commission fee during the "10% test" for derecognition of financial liabilities"

As part of the process of annual improvements to IFRS, the period 2018-2020, the IFRS Council has issued an amendment to IFRS 9, which clarifies the composition of commission amounts that an organization takes into account when assessing whether the terms of a new or modified financial obligation are such , which differ significantly from the terms of the initial financial obligation.

Such amounts include only commissions paid or received between the lender and the borrower, including commissions paid or received by the lender or borrower on behalf of the other party. An entity shall apply these amendments to financial liabilities that have been modified or replaced on (or after) the start date of the annual reporting period in which the entity first applies the amendment.

Amendments to IAS 16 - "Fixed assets: receipt for intended use"

In May 2020, the IASB Council issued the document "Fixed assets: receipts for intended use", which prohibits organizations from deducting from the original cost of an item of fixed assets any proceeds from the sale of products manufactured in the process of delivering this item to the site location and bringing it to the condition required for its operation in accordance with management's intentions. Instead, the organization recognizes revenue from the sale of such products, as well as the cost of producing these products, as part of profit or loss.

Reclassifications

For 2021, the following reclassification was made to match the 2022 presentation:

31 December 2021 and for the year then ended as reported		***31 December 2021 and for the year then ended as reclassified***		***Reclassi-fications***
Item	***Amount***	***Item***	***Amount***	
Statement of Financial Position				
Impairment gains (losses) determined in accordance with IFRS 9	(78,257)	Impairment gains (losses) determined in accordance with IFRS 9	9,859	88,116
Other administrative and operating expenses	(314,057)	Other administrative and operating expenses	(402,173)	(88,116)

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 records, when the Bank becomes a party to the contractual provisions of the instrument.

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 senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable 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

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 in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the management. The information that will be considered includes:

- the stated policies and objectives for the portfolio of the financial assets and the operation 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;
- the frequency, volume and timing of sales in past periods, the reasons for such sales, as well as expectations regarding the future level of sales. However, information on sales levels is not considered in isolation, but as part of a single holistic analysis of how the Bank's stated goal of managing financial assets is achieved and how cash flows are realized.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principle (SPPI criterion), the Bank considers the contractual terms of the financial instrument. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows so that it would not meet the analyzed requirement. In making the assessment, the Bank considers:

- contingent events that could change the amount and timing of cash flows (e.g., currency);
- leverage features, a contractual condition that increases the flexibility of the cash flows under the contract;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration of the time value of money – e.g. periodic revision of interest rates.

A financial asset is measured at AC only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("positive SPPI test").

A financial asset is evaluated as FVTOCI, only in case, it meets both of the following conditions and is not classified at the Bank's discretion as being assessed as FVTPL, when:

- it is kept within the framework of the business model, the goal of which is achieved both by obtaining contractual cash flows and by selling financial assets, and
- its contractual terms provide for the occurrence of cash flows within the established terms, which are the payment of the principal amount and interest on on the principal amount outstanding.

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, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., other than financial instruments at FVTPL.

4.5.2. Expected credit loss allowance

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

- financial assets measured at AC;
- financial assets measured at FVTOCI;
- credit liabilities and financial guarantees.

Expected credit losses allowance should be 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. Valuation 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 (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive) discounted at the original effective interest rate (or the credit risk-adjusted effective rate interest on purchased or created credit-impaired financial assets);
- *regarding the unused part of the loan obligation:* as the present value of the difference between the contractual cash flows that belong to the Bank under the agreement, if the holder of the loan obligation exercises his right to receive the loan, and the cash flows that the Bank expects to receive , if this loan will be issued; and
- *regarding financial guarantee contracts:* as the present value of expected payments to the contract holder to compensate for the credit loss suffered by him, minus the amounts that the Bank expects to reimburse.

In 2022, the Bank introduced a grace period for loans to individuals and legal entities. The interest holidays were canceled on June 27, 2022, and the body holidays from August 25, 2022; As of July 1, 2022, the Bank transferred 4 borrowers of legal entities and 227 borrowers of natural persons to the second stage of impairment, in accordance with activated early warning signals, on a geographical basis (temporarily occupied territories or places where active hostilities were taking place) and at the same time fully or partially did not carry out loan repayment; collateral for a loan that is located in temporarily occupied territory or the Bank has information about damage to the collateral, then it is not taken into account for the calculation of expected credit losses; for loans where the entire collateral was blocked, the LGD is 100%; work with clients continues to gradually repay problematic debts, which reduces the level of existing risk and negative impact on the Bank's regulations; restrained and selective lending to the corporate segment is carried out with strict credit risk control.

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 (SICR) of a financial instrument since its initial recognition, the Bank considers reasonable and supportable information that is relevant and accessible without undue cost of effort, including both quantitative and qualitative information, an analysis based on the Bank's historical experience, an expert credit assessment and forward-looking 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 grades 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

According to the article "Cash and their equivalents", the Bank recognizes cash (cash on hand), funds in the National Bank of Ukraine, correspondent accounts and "overnight" deposits in banks, which can be converted into a known amount of cash on first demand and which carry a low risk cost changes. For the purposes of the Statement of Financial Status and the calculation of the Statement of Cash Flows, the funds of mandatory reserves or other funds and account balances are not included in the calculation of the article "Cash and their equivalents", 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 2022:

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.

If there is evidence of a possible loss of economic benefit as of the balance sheet date, the Bank recognizes the impairment of fixed assets. A review of the value of fixed assets for impairment is carried out upon receipt of reliable information on impairment/loss of usefulness and at the end of each financial year before preparing financial statements.

Losses from impairment of fixed assets, which are accounted for at original cost, are included in the expenses of the reporting period with an increase in the amount of depreciation of fixed assets in the balance sheet.

In the presence of signs indicating recovery of usefulness, the Bank recognizes income.

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.

The useful life of an intangible asset is determined by the primary documents.

If the period of useful use of an intangible asset is not established by primary documents, such period of useful use is determined independently, according to the decision of the commission that approves the act of introducing the intangible asset into economic circulation.

Depreciation is calculated monthly according to the rates calculated according to the periods of useful use established for each 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), calculated at the rate of additional borrowings on the date of modification.
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.

The Bank evaluates investment property with such regularity that its book value on the balance sheet date does not differ significantly from the fair value, but necessarily before drawing up financial statements as of the end of the reporting year.

The Bank ceases to recognize an object of investment property in the balance sheet when it is disposed of as a result of sale or transfer to financial leasing (rent), or if it is no longer expected to receive any economic benefits from its use.

If the use of the investment property changes and it is reclassified to property, plant 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 is carried out at the forward exchange rate on the balance sheet date (at least once a month).

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. Borrowings

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. Employee benefits

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 2022, the exchange rates of UAH established by the NBU were as follows:

Currency	31 December 2022	31 December 2021
USD	36.5686	27.28
EUR	38.951	30.92

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 “Net profit (loss) from foreign currency revaluation” in the statement of profit or loss.

The Bank recognizes the results of foreign currency trading as a result of the purchase, sale, exchange of foreign currency, which are reflected under the item "Net profit (loss) from operations with foreign currency" of the Statement of Profit or Loss.

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. Decrease in the usefulness of non-financial assets

Other non-financial assets, except for deferred taxes, are assessed at each reporting date for impairment. The amount of expected recovery of non-financial assets is the greater of two estimates: their fair value less costs to sell or value in use. When assessing 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 cash and the risks inherent in a particular asset. The amount of expected compensation of an asset that does not independently generate cash inflows, regardless of inflows from other assets, is determined by the cash-generating unit to which this asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its expected 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 the expected recovery change. An impairment loss is reversed only when the asset's carrying amount does not exceed the carrying amount that would have been determined, less depreciation or amortization, if no impairment loss had been recognised.

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*

The amendments clarify:

- it is clarified that a liability is classified as long-term if the organization has the right to postpone the settlement of the liability for at least 12 months - this right must exist at the end of the reporting period;
- classification depends only on the existence of such a right and does not depend on the probability of whether the company plans to use this right;
- the procedure for evaluating restrictive conditions (covenants) is prescribed in more detail.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 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.

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.

It is expected that these changes will not have a significant impact on the Bank.*Deferred Tax related to Assets and Liabilities arising from a Single Transaction – **Amendments to IAS 12***

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the Board expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

These amendments are effective for annual periods beginning on or after January 1, 2023.

It is expected that these changes will not have a significant impact on the Bank.*Lease Liability in a Sale and Leaseback – **Amendments to IFRS 16***

In September 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed.

It is expected that these changes will not have a significant impact on the Bank.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Cash	149,999	257,770
2	Balances with the National Bank of Ukraine	287,829	86,790
3	**Correspondent accounts with:**	**1,971,507**	**593,218**
3.1	domestic banks	7,039	5,731
3.2	foreign banks	1,964,468	587,487
4	Provisions for cash on correspondent accounts with other banks	(59)	(39)
5	**Total cash and cash equivalents**	**2,409,276**	**937,739**

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

As at 31 December 2022, the Bank placed cash on a correspondent account with JPMORGAN CHASE BANK, N.A. in the amount of UAH 1,154,157 thousands (2021: Intesa Sanpaolo S.p.A.in the amount of UAH 450,146 thousands), which represents a significant concentration.

As at 31 December 2022 and 2021, balances on correspondent accounts were not overdue and not impaired.

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2022 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	(39)	(39)
2	Decrease in provision for impairment during the year	19	19

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
3	Foreign exchange differences	(39)	(39)
4	**Balance at the end of the period**	**(59)**	**(59)**

Table 6.3. 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 6.4. Credit quality analysis of cash and cash equivalents as at 31 December 2022

(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:	1,971,507	149,999	287,829	2,409,335
1.1	Not overdue	1,971,507	149,999	287,829	2,409,335
2	Provision for cash impairment	(59)	-	-	(59)
3	**Total cash and cash equivalents**	**1,971,448**	**149,999**	**287,829**	**2,409,276**

Table 6.5. 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	Provision for cash impairment	(39)	-	-	(39)
3	**Total cash and cash equivalents**	**593,179**	**257,770**	**86,790**	**937,739**

Note 7. Loans and advances to banks

Table 7.1. Loans and advances to banks

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Deposits in other banks, which are accounted for at amortized cost:	132,465	-
1.1	Short-term deposits	132,465	-
2	Provision for impairment of amounts due from banks	(1)	-
3	**Total amounts due from other banks less provisions**	**132,464**	**-**

Line 3 in Table 7.1 corresponds to account "Loans and advances to banks" in the statement of financial position.

As of December 31, 2022, a time deposit was placed with Inteza Sanpaolo Bank in the amount UAH 132,465 thousand, which represents a significant concentration..

Table 7.2. Analysis of the book value of loans and advances to banks for 2022

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Stage 1**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	-	-
2	Increase in balance during the year	292,194	292,194
2.1	new contracts	288,025	288,025
2.2	foreign exchange differences	4,169	4,169
3	Decrease in balance during the year	(159,729)	(159,729)
3.1	liabilities that have expired	(159,729)	(159,729)
4	**Balance at the end of the year**	**132,465**	**132,465**

Table 7.3. Analysis of provision for loans and advances to banks for 2022

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Stage 1**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	-	-
2	(Increase) in provision for impairment during the year	(6)	(6)
2.1	provision for new liabilities	(6)	(6)
3	Decrease in provision for impairment during the year	5	5
3.1	Decrease of loan closing provision	5	5
4	**Balance at the end of the period**	**(1)**	**(1)**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Corporate loans	2,595,787	3,184,830
2	Retail mortgage loans	882,366	927,270
3	Loans to individual entrepreneurs	388	3
4	Retail consumer loans	544,395	705,217

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
5	Other retail loans	11	7
6	Provision for impairment of loans	(328,096)	(49,055)
7	**Total loans less provisions**	**3,694,851**	**4,768,272**

Line 7 in Table 8.1 corresponds to account "Loans and advances to customers" in the statement of financial position.

Loans, the terms of which were revised

Starting from February 24, 2022 to December 31, 2022, the reserve increased due to the deterioration of the quality of the loan portfolio and the blocking of of lost or damaged collateral due to the impact of the full-scale invasion of Ukraine. The amount of increase in the reserve for such loans amounted to UAH 254,174 thousands (due to the transition to Stage 2 – UAH 41,636 thousands, due to the transition to Stage 3 – UAH 103,816 thousands, due to such collateral – UAH 108,722 thousands).

Since the beginning of the full-scale invasion of Ukraine at the request of customers during 2022, the Bank has been restructuring debt for loans and accrued interest. As of December 31, 2022, the book value of credit agreements, the terms of which were revised in 2022, amounts to UAH 329,113thousand (of which: UAH 326,405 thousand for loans to legal entities, UAH 2,708 thousand for loans to natural persons. UAH). The amount of increase in the reserve under such revised contracts amounted to UAH 22,120 thousands (of which: UAH 20,018 thousands for loans to legal entities, UAH 1,902 thousands for loans to individuals).

Due to the spread of the coronavirus pandemic, at the request of individual customers during 2021 affected by the economic consequences of quarantine and restrictive measures, the bank reviewed the maturities of loans and accrued interest. As of the end of the year, the carrying amount of loan agreements under which the terms were revised is UAH 9,151 thousands (2021: UAH 10,230 thousands). The amount of the reserve increase under such revised contracts amounted to UAH 3.209 housand (2021: UAH 342 thousands).

During 2022, there were no new requests due to COVID-19 regarding the revision of the repayment terms.

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 2022 and 2021, loans per 2 and 3 customers account for 11% and 15%, respectively (UAH 463,580 thousands and UAH 751,373 thousands, respectively).

Table 8.2. Analysis of the book value of loans and advances to customers for 2022

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	**4,779,217**	**24,772**	**13,338**	**4,817,327**
2	Increase in balance during the year	**2,423,634**	**1,726,115**	**491,357**	**4,641,106**
2.1	Increase in balance due to new loans	858,429	69,899	-	928,328
2.2	Increase in balance of the current portfolio	1,019,162	62,076	6,724	1,087,962
2.3	Amount of transition from Stage 1	-	1,542,592	1,053	1,543,645
2.4	Amount of transition from Stage 2	111,044	-	391,814	502,858

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
2.5	Amount of transition from Stage 3	2,292	-	90,581	92,873
2.6	Foreign exchange differences	432,707	51,548	1,185	485,440
3	Decrease in balance during the year	**(4,657,355)**	**(674,194)**	**(103,937)**	**(5,435,486)**
3.1	Increase in balance due to full repayment of loans	(1,085,818)	(46,826)	(1,295)	(1,133 939)
3.2	Decrease in the balance of the current portfolio	(1,974,090)	(121,527)	(8,879)	(2,104 496)
3.3	Bad debt write-offs against the provision	-	-	(796)	(796)
3.4	Amount of transition from Stage 1	-	(111,044)	(2,292)	(113,336)
3.5	Amount of transition from Stage 2	(1,542,592)	-	-	(1,542,592)
3.6	Amount of transition from Stage 3	(1,053)	(391,813)	(90,581)	(483,447)
3.7	Foreign exchange differences	(53,802)	(2,984)	(94)	(56,880)
4	Balance at the end of the year	**2,545,496**	**1,076,693**	**400,758**	**4,022,947**

Table 8.3. Analysis of reserves for loans and advances to customers for 2022

					(in thousands of Ukrainian hryvnias)(
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	**32,277**	**4,972**	**11,806**	**49,055**
2	**Increase in the amount of loan provisions for the year**	41,228	240,769	375,007	657,004
2.1	Reserve for new loans	2,564	5,962	-	8,526
2.2	Provision for increase in carrying amount	10,423	18,234	4,743	33,400
2.3	Increasing the reserve from the transition between stages	4,896,	121,878	199,368	326,142
2.4	Increasing the reserve from the deterioration of the quality of the portfolio (DPD + new PD)	18,530	79 009	2,653	100,192
2.5	Amount of transition from Stage 1	-	9,602	46	9,648
2.6	Amount of transition from Stage 2	1,480	-	81,737	83,217
2.7	Amount of transition from Stage 3	30	-	81,427	81,457
2.8	Interest accrued on impaired loans	-	-	3,531	3,531
2.9	Foreign exchange differences	3,305	6,084	1,502	10,891

					(in thousands of Ukrainian hryvnias)(
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
3	**Decrease in the amount of loan provisions for the period**	(37,495)	(178,579)	(161,889)	(377,963)
3.1	Decrease of loan closing provision	(2,563)	(2,503)	(658)	(5,724)
3.2	Decrease in provision by decrease in the book value	(22,736)	(31,954)	(10,240)	(64,930)
3.3	Decreasing the reserve from the transition between stages	(467)	(40,294)	(63,214)	(103,975)
3.4	Decreasing the reserve from the deterioration of the quality of the portfolio (DPD + new PD)	(1,419)	(20,073)	(4,374)	(25,866)
3.5	Recovery of loans written off against provisions in prior periods	-	-	(796)	(796)
3.6	Amount of transition from Stage 1	-	(1,480)	(30)	(1,510)
3.7	Amount of transition from Stage 2	(9,602)	-	-	(9,602)
3.8	Amount of transition from Stage 3	(46)	(81,737)	(81,427)	(163,210)
3.9	Interest accrued on impaired loans	(2)	-	(872)	(874)
3.10	Foreign exchange differences	(660)	(538)	(278)	(1,476)
4	**Balance at the end of the period**	**36,010**	**67,162**	**224,924**	**328,096**

For 12 months of 2022, loans and advances to customers that the Bank wrote off against reserves in previous years were reimbursed in the total amount of UAH 852 thousands (12 months of 2021: UAH 7,396 thousands). The amount of the recovery was recognized directly in profit or loss as part of "Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9". See Note 25.

Table 8.4. Analysis of the book value of loans and advances to customers for 2021

					(in thousands of Ukrainian hryvnias)(
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

					(in thousands of Ukrainian hryvnias)(
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
2.2	Decrease (increast) in balance during the year	106,019	2,160	1,053	109,232
2.3	Amount of transition from Stage 1	-	30,960	36	30,996
2.4	Amount of transition from Stage 2	4,480	-	6,457	10,937
2.5	Amount of transition 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	Amount of transition from Stage 1	-	(4,480)	(1,970)	(6,450)
3.5	Amount of transition from Stage 2	(30,960)	-	-	(30,960)
3.6	Amount of transition 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 8.5. Analysis of reserves for loans and advances to customers for 2021

					(in thousands of Ukrainian hryvnias)
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**	**64,290**	**9,706**	**14,402**	**88,398**
2.1	Reserve for new loans	53,371	-	-	53,371
2.2	Provision for increase in carrying amount	10,280	3,564	701	14,545
2.3	Increasing the reserve from the transition between stages	-	4,909	2,823	7,732
2.4	Amount of transition from Stage 1	-	1,102	-	1,102
2.5	Amount of transition from Stage 2	109	-	3,581	3,690
2.6	Amount of transition from Stage 3	24	-	6,420	6,444
2.7	Interest accrued on impaired loans	-	-	500	500
2.8	Foreign exchange differences	506	131	377	1,014
3	**Decrease in the amount of loan provisions for the period**	(67,602)	(5,467)	(11,923)	(84,992)
3.1	Decrease of loan closing provision	(8,603)	(102)	(861)	(9,566)
3.2	Decrease in provision by decrease in the book value	(56,373)	(10)	(2,771)	(59,154)
3.3	Decreasing the reserve from the transition between stages	(2)	(1,251)	(1,556)	(2,809)
3.4	Bad debt write-offs against the provision	-	-	(76)	(76)
3.5	Amount of transition from Stage 1	-	(110)	(23)	(133)

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
3.6	Amount of transition from Stage 2	(1,102)	-	-	(1,102)
3.7	Amount of transition from Stage 3	-	(3,580)	(6,421)	(10,001)
3.8	Foreign exchange differences	(1,522)	(414)	(215)	(2,151)
4	**Balance at the end of the period**	**32,277**	**4,974**	**11,805**	**49,056**

Table 8.6. Loan structure by types of economic activity

(in thousands of Ukrainian hryvnias)					
Line	**Economic activity**	**31/12/2022**		**31/12/2021**	
1	**2**	**3**	**4**	**5**	**6**
1	Transactions with real estate, leasing, engineering and servicing	312,771	7.77%	377,616	7.84%
2	Trade, repair of vehicles, household equipment and items of personal use	665,043	16.53%	1,439,627	29.88%
3	Agriculture, hunting, forestry	329,179	8.18%	321,697	6.68%
4	Processing industry	1,140,284	28.34%	881,452	18.30%
5	Retail	1,427,160	35.48%	1,632,493	33.89%
6	Other	148,510	3.70%	164,442	3.41%
7	**Total loans and advances to customers less provisions**	**4,022,947**	**100%**	**4,817,327**	**100,00%**

Table 8.7. Information about loans by collateral type of as at 31 December 2022

(in thousands of Ukrainian hryvnias)							
Li-ne	**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**	259,310	630	388	503,654	11	763,993
2	**Loans secured by:**	794,552	881,736	-	15,090	-	1,691,378
2.1	cash	3,162	-	-	208	-	3,370
2.2	real estate	791,390	881,736	-	14,882	-	1,688,008
2.2.1	residential mortgage	5,193	881,736	-	7,395	-	894,324
2.2.2	non-residential mortgage	786,197	-	-	7,487	-	793,684
3	**Other assets**	1,541,925	-	-	25,651	-	1,567,576
3.1	equipment	630,919	-	-	-	-	630,919
3.2	goods in turnover	335,192	-	-	-	-	335,192
3.3	vehicles	348,604	-	-	25,651	-	374,255
3.4	government securities	227,210	-	-	-	-	227,210
4	**Total loans and advances to customers, gross of provision charges**	**2,595,787**	**882,366**	**388**	**544,395**	**11**	**4,022,947**

Table 8.8. Information about loans by collateral type of as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Li-ne	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 8.9. Credit quality analysis as at 31 December 2022

(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:**	1,319,080	820,048	388	405,966	11	2,545,493
1.1	Not overdue	1,319,080	809,123	388	396,906	11	2,525,508
1.2	Less than 30 days	-	10,925	-	9,032	-	19,957
1.3	31 - 60 days	-	-	-	28	-	28
2	**Impairment Stage 2:**	1,011,000	23,488	-	42,207	-	1,076,695
2.1	Not overdue	792,343	16,202	-	26,156	-	834,701
2.2	Less than 30 days	-	1,369	-	4,400	-	5,769
2.3	31 - 60 days	153,968	3,052	-	6,668	-	163,688
2.4	61 - 90 days	64,689	2,865	-	4,983	-	72,537
3	**Impairment Stage 3:**	265,708	38,830	-	96,221	-	400,759
3.1	Not overdue	-	9,806	-	15,305	-	25,111
3.2	Less than 30 days	-	390	-	2 633	-	3,023
3.3	31 - 60 days	36,015	-	-	1,112	-	37,127
3.4	61 - 90 days	-	-	-	791	-	791
3.5	91 - 180 days	202,188	5,466	-	10,813	-	218,467
3.6	181 - 270 days	27,505	19,173	-	53,209	-	99,887
3.7	More than 270 days	-	3,995	-	12,358	-	16,353
4	**Total loans, gross of provision charges**	**2,595,788**	**882,366**	**388**	**544,394**	**11**	**4,022,947**
5	**Provision for loan impairment**	**(171,185)**	**(44,714)**	**(2)**	**(112,195)**	**-**	**(328,096)**

(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**	**2,424,603**	**837,652**	**386**	**432,199**	**11**	**3,694,851**

Table 8.10. 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)**
6	**Total loans less provisions**	**3,163,097**	**915,142**	**3**	**690,024**	**6**	**4,768,272**

As at 31 December 2022 and 31 December 2021, 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.

8.11. Credit exposure and financial effect of collateral value

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 expected credit loss allowance without collateral would be higher as at 31 December 2022 by UAH 154,172 thousands (2021: by UAH 12,378 thousands).

Based on the management's estimates, the expected credit loss allowance would be higher as at 31 December 2022 by UAH 21,402 thousands (2021: by UAH 7,259 thousands) for mortgage loans and as at 31 December 2022: by UAH 5,671 thousands (31 December 2021: by UAH 201 thousands) for other retail loans.

The mass 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. The market value is determined based on the results of a comparative methodical approach.

During 2022, the assessment of immovable and movable property was not carried out.

Note 9. Investments in securities

Table 9.1. Investments in securities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	4
1	Debt securities at AC	3,344,209	1,750,635
1.1	certificates of deposit of the National Bank of Ukraine	3,344,209	1,750,635
2	Debt securities at FVTOCI	-	1,434,851
2.1	domestic government loan bonds	-	1,434,851
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**	**3,344,212**	**3,185,489**

Line 5 in Table 9.1 corresponds to account "Investments in securities" in the statement of financial position.

Table 9.2. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2022

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	3,344,209	3,344,209
1.1	Not overdue	3,344,209	3,344,209
2	Provision for impairment of securities	-	-
3	**Total investments in securities at AC**	**3,344,209**	**3,344,209**

Table 9.3. 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 9.4. 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 9.5. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2022 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 2022	(51)	(31)	(82)
2	Increase in provision for impairment during the year	51	-	51
3	**Balance as at 31 December 2022**	**-**	**(31)**	**(31)**

Table 9.6. 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)**

Note 10. Investment property

Table 10.1. 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**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the period	12,777	32,872
2	Disposal (sale)	(663)	(17,456)

3	Reclassified to non-current assets held for sale and disposal groups	(6,046)	-
4	(Decrease) increase in investment property value	763	(2,639)
5	**Fair value of investment property at the end of the period**	**6,831**	**12,777**

Line 5 in Table 10.1 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.

During 2022, in accordance with the Asset Sale Plan for the period from 11/01/2022 to 11/01/2023 (Protocol No. 35_22 of 11/25/2022) and on the basis of the Board's decision of 11/14/2022 (Protocol No. 33_14) regarding reclassification assets, 2 objects were reclassified from investment property to the group of assets held for sale:

- non-residential premises at 76 Chervona St., Zvenigorodka, Zvenigorodka District, Cherkasy Oblast, the book value of which on the date of reclassification was UAH 6,046 thousands;
- non-residential premises "A-3" at 93 Lenin Street, Karlivka, Poltava District, Poltava Region, the book value of which on the date of reclassification was UAH 24 thousands.

Table 10.2. Amounts recognised in the statement of profit or loss and other comprehensive income

			(in thousands of Ukrainian hryvnias)
Line	**Income and expense**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Gains from disposal of investment property	-	1,693
2	Net (loss) from investment property revaluation	763	(2,639)

The data on line 1 of table 10.2 are displayed as part of the note Other income of the Statement of profit or loss. Data on line 2 of table 10.2 is displayed as a separate line in the Statement of profit or loss.

During 2022, the Bank did not lease investment real estate objects and did not receive income.

Note 11. Property, plant and equipment and intangible assets

Table 11.1. Movements in right-of-use assets during the year 2022

(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 2021:**	**257**	**204,213**	**26,022**	**52**	**3,305**	**633**	**3,667**	**-**	**15,623**	**117,439**	**371,211**
1.1	**Historical (revalued) cost**	**257**	**208,380**	**149,516**	**7,921**	**8,270**	**1,336**	**19,543**	**11,345**	**15,623**	**501,496**	**923,687**
1.2	**Depreciation as at 1 January 2021**	**-**	**(4,167)**	**(123,494)**	**(7,869)**	**(4,965)**	**(703)**	**(15,876)**	**(11,345)**	**-**	**(384,057)**	**(552, 476)**
2	Additions	-	-	-	-	-	-	-	-	88,402	-	88,402
3	Commissioning	-	-	3,006	-	356	-	457	7,240	-	13,648	24,707
4	Improvements of property, equipment and intangible assets	-	-	144	-	-	-	-	-	-	30,360	30,504
5	Disposals	-	(2,458)	(69)	(15)	(4)			-	(55,211)		(57,757)
5.1	Disposal (historical cost)	-	(2,563)	(19,985)	(3,464)	(407)	(281)	(6,841)	(139)	(55,211)	(519)	(89,410)
5.2	Disposal (impairment)	-	105	19,916	3,449	403	281	6,841	139	-	519	31,653
6	Depreciation/amortisation charge	-	(14,222)	(6,026)	(37)	(620)	(157)	(1,790)	(3,623)	-	(39,513)	(65,988)
7	Revaluation	-	26,849	-	-	-	-	-	-	-	-	26,849
7.1	Revaluation of historical cost	-	11,489	-	-	-	-	-	-	-	-	11,489
7.2	Revaluation of depreciation/amortisation	-	15,360	-	-	-	-	-	-	-	-	15,360
8	**Carrying amount as at 31 December 2021 (01 January 2022):**	**257**	**214,382**	**23,077**	**-**	**3,037**	**476**	**2,334**	**3,617**	**48,814**	**121,934**	**417,928**

(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**
8.1	**Historical (revalued) cost 31 December 2021 (01 January 2021)**	**257**	**217,306**	**132,681**	**4,457**	**8,219**	**1,055**	**13,159**	**18,446**	**48,814**	**544,985**	**989,379**
8.2	**Depreciation as at 31 December 2021 (01 January 2022)**	**-**	**(2,924)**	**(109,604)**	**(4,457)**	**(5,182)**	**(579)**	**(10,825)**	**(14,829)**	**-**	**(423,051)**	**(571,451)**
9	Additions	-	-	-	-	-	-	-	-	103,307	-	103,307
10	Commissioning	-	1,181	57,065	-	68	54	2,126	349	-	9,919	70,762
11	Improvements of property, equipment and intangible assets	-	1,317	2,544	-	-	-	501	-	-	40,254	44,616
12	Transfer to disposal group assets	-	(24)	-	-	-	-	-	-	-	-	(24)
12.1	Transfer (historical cost)	-	(25)	-	-	-	-	-	-	-	-	(25)
12.2	Transfer (impairment)	-	1	-	-	-	-	-	-	-	-	1
13	Disposals	-	-	(64)	-	(38)	(26)	(21)	-	(115,377)	(3)	(115,529)
13.1	Disposal (historical cost)	-	(1)	(6,230)	-	(59)	(89)	(100)	(194)	(115,377)	(32,202)	(154,252)
13.2	Disposal (impairment)	-	1	6,166	-	21	63	79	194	-	32,199	38,723
14	Depreciation/amortisation charge	-	(16,392)	(5,811)	-	(643)	(153)	(1,965)	(172)	-	(49,073)	(74,209)
15	Reflecting the value of impairment losses due to financial results	-	(3,633)	-	-	-	-	-	-	-	-	(3,633)
16	Reflecting the value of losses from a decrease in value through financial results with an increase in the amount of depreciation	-	-	(154)	-	(79)	(35)	-	-	-	-	(268)

(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**
17	Reflecting the amount of impairment losses due to additional capital	-	(502)	-	-	-	-	-	-	-	-	(502)
18	Capital increase by the amount of depreciation from impairment	-	14	-	-	-	-	-	-	-	-	14
19	Revaluation	-	48,831	-	-	-	-	-	-	-	-	48,831
19.1	Revaluation of historical cost	-	32,790	-	-	-	-	-	-	-	-	32,790
19.2	Revaluation of depreciation/amortisation	-	16,041	-	-	-	-	-	-	-	-	16,041
20	**Carrying amount as at 31 December 2022:**	**257**	**245,174**	**76,657**	**-**	**2,345**	**316**	**2,975**	**3,794**	**36,744**	**123,031**	**491,293**
20.1	**Historical (revalued) cost**	**257**	**248,433**	**186,060**	**4,457**	**8,228**	**1,020**	**15,686**	**18,601**	**36,744**	**562,956**	**1,082,442**
20.2	**Depreciation as at 31 December 2022**	**-**	**(3,259)**	**(109,403)**	**(4,457)**	**(5,883)**	**(704)**	**(12,711)**	**(14,807)**	**-**	**(439,925)**	**(591,149)**

As at 31 December 2022, there are no property, plant and equipment items that are:
- pledged as collateral;
- temporarily not in use (conservation, reconstruction, etc.);
- decommissioned.

As of December 31, 2022, fixed assets (movable property), which are subject to restrictions within the framework of a lawsuit (Note 17), amount to UAH 4,457 thousands (original book value). As of December 31, 2021, there are no fixed assets with respect to ownership restrictions (orders).

As at 31 December 2022, historical (revalued) cost of fully depreciated/amortised property, plant and equipment, intangible assets and other non-current assets amounts to UAH 227,617 thousands. (2021: UAH 241,824 thousands):
- property, plant and equipment – UAH 102,713 thousands (2021: UAH 104,147 thousands);
- intangible assets – UAH 108,660 thousands (2021: UAH 122,014 thousands);
- other non-current assets – UAH 16,244 thousands (2021: UAH 15,663 thousands).

As of December 31, 2022, expenses from the impairment (depreciation) of immovable property amounted to UAH 4,121 thousands, movable property to UAH 268 thousands, including as a result of loss of control over assets (2021: the impairment (depreciation) of immovable property amounted to UAH 2,639 thousands).

As of December 31, 2022 2021, 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, 2022, the book value of real estate, which would be recognized if the assets were accounted for according to the cost model less depreciation, would be UAH 111,700 thousands (2021: UAH 113,700 thousands).

As of December 31, 2022 and 2021 buildings and constructions are included in the assets with the right of use. Assets with the right of use are included in the item Fixed Assets and Intangible Assets of the Balance Sheet.

During 2022, from the beginning of the full-scale invasion of Russia on the territory of Ukraine, the Bank took measures to ensure uninterrupted work, protection of property and information. The bank purchased generators worth UAH 2,814 thousands, computer, network, security equipment worth UAH 36,300 thousands, and software worth UAH 9,300 thousands.

Table 11.2 Movements in right-of-use assets during the year 2022

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2022	**51,474**	**51,474**
1.1	Right-of-use assets	116,902	116,902
1.2	Amortisation/depreciation	(65,428)	(65,428)
2	Adjustment due to changes in accounting policies under IFRS 16	52,151	52,151
3	Amortisation/depreciation charges for the year	(25,381)	(25,381)
4	Derecognition of right-of-use assets	(20,619)	(20,619)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
5	**Balance at 31 December 2022**	**57,625**	**57,625**
5.1	Right-of-use assets	135,436	135,436
5.2	Amortisation/depreciation	(77,811)	(77,811)

Table 11.3 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	93,385	93,385
1.2	Amortisation/depreciation	(47,013)	(47,013)
2	Adjustment due to changes in accounting policies under IFRS 16	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	116,902	116,902
5.2	Amortisation/depreciation	(65,428)	(65,428)

Note 12. Other financial assets

Table 12.1. Other financial assets

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Accounts receivable from transactions with customers	5,513	14,455
2	Amounts due on accrued income from cash and settlement services and other accrued income	2,409	2,318
3	Accounts receivable from transactions with payment cards	44,032	15,588
4	Other assets	49	20
5	Provision for impairment	(5,662)	(10,182)
6	**Total other financial assets less provisions**	**46 341**	**22,199**

Line 6 in Table 12.1 corresponds to account “Other financial assets” in the statement of financial position.

Table 12.2. Analysis of changes in provision for impairment of other financial assets for 2022

				(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 2022	**(9,704)**	**(478)**	**(10,182)**
2	(Increase)/decrease in provision for impairment during the year	(1,633)	(378)	(2,011)
3	Bad debt written off	7,180	-	7,180

(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**
4	Foreign exchange differences on provisions	(576)	(73)	(649)
5	**Closing balance as at 31 December 2022**	**(4,733)**	**(929)**	**(5,662)**

Table 12.3. 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)**

Table 12.4. Credit quality analysis of other financial assets as at 31 December 2022 and for the year then ended

(in thousands of Ukrainian hryvnias)						
Accounts receivable without a significant financing component						
Li-ne	**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:	1,011	1,549	44,032	49	46,641
1.1	Not overdue	551	1,397	44,032	20	46,000
1.2	Less than 30 days	232	91	-	29	352
1.3	31 - 60 days	228	37	-	-	265
1.4	61 - 90 days	-	24	-	-	24
2	Impairment Stage 3:	4,500	862	-	-	5,362
2.1	Less than 30 days	70	31	-	-	101
2.2	31 - 60 days	70	48	-	-	118
2.3	61 - 90 days	18	58	-	-	76
2.4	91 - 180 days	-	134	-	-	134
2.5	181 - 270 days	-	24	-	-	24
2.6	More than 270 days	4,342	567	-	-	4,909

						(in thousands of Ukrainian hryvnias)
			Accounts receivable without a significant financing component			
Li-ne	**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**
3	Total other financial assets	5,511	2,411	44,032	49	52,003
4	Provision for impairment of other assets	(4,732)	(930)	-	-	(5,662)
5	**Total other financial assets less provisions**	**779**	**1,481**	**44,032**	**49**	**46,341**

Table 12.5. Credit quality analysis of other financial assets as at 31 December 2021 and for the year then ended

						(in thousands of Ukrainian hryvnias)
			Accounts receivable without a significant financing component			
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
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**

Note 13. Other non-financial assets

Table 13.1. Other non-financial assets

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Accounts receivable from the acquisition of assets	974	-
2	Prepaid services	21,770	12,896
3	Precious metals	955	1,330
4	Accounts receivable from taxes and mandatory payments other than income tax	191	187
5	Other assets	3,221	2,335
6	Provision for other non-financial assets	(51)	(533)
7	**Total other non-financial assets less provisions**	**27,060**	**16,215**

Line 7 in Table 13.1 corresponds to account "Other non-financial assets" in the statement of financial position.

Table 13.2. Movements in provision for impairment of other non-financial assets as at 31 December 2022 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 2022	(66)	(467)	(533)
2	Decrease in provision for impairment during the year	15	-	15
3	Bad debt written off	-	503	503
4	Foreign exchange differences on provisions	-	(36)	(36)
5	**Balance at 31 December 2022**	**(51)**	**-**	**(51)**

Table 13.3. 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)**

Table 13.4. Credit quality analysis of other non-financial assets as at 31 December 2022 and for the year then ended

(in thousands of Ukrainian hryvnias)

		Accounts receivable without significant financing component					
Line	**Movements in provisions**	**Accounts receivable from the acquisition of assets**	**Prepaid services**	**Precious metals**	**Accounts receivable for taxes and mandatory payments, except income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	974	21,690	955	191	3,221	27,031
1.1	Not overdue	974	21,690	955	191	3,221	27,031
2	Impairment Stage 3:	-	80	-	-	-	80
2.1	61 - 90 days	-	40	-	-	-	40
2.2	More than 270 days	-	40	-	-	-	40
3	Total other non-financial assets	974	21,770	955	191	3,221	27.111
4	Provision for impairment of other non-financial assets	-	(51)	-	-	-	(51)
5	**Total other non-financial assets less provisions**	**974**	**21,719**	**955**	**191**	**3,221**	**27,060**

Table 13.5. 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**

Note 14. Due to customers

Table 14.1. Breakdown of amounts due to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	**Government and public organisations:**	**18,814**	**15,330**
1.1	Current accounts	18,683	14,271
1.2	Term deposits	131	1,059
2	**Other legal entities:**	**5,140,254**	**4,685,290**
2.1	Current accounts	3,556,162	3,255,174
2.2	Term deposits	1,584,092	1,430,116
3	**Individuals:**	**3,056,707**	**2,585,168**
3.1	Current accounts	2,604,002	2,002,190
3.2	Term deposits	452,705	582,978
4	**Total amounts due to customers**	**8,215,775**	**7,285,788**

Line 4 in Table 14.1 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 the balance sheet value of customers' funds (excluding subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2022 and 2021, the funds of two and three customers of the Bank amounted to UAH 813,404 thousands and UAH 840,023 thousands, respectively, representing 9.90% and 11.53% of total due to customers as at the reporting dates.

As of December 31, 2022, there was one deposit in the loan collateral for the amount of UAH 475 thousands (2021: there were eight deposits in the loan collateral for a total amount of UAH 25,837 thousands).

Table 14.2. Breakdown of amounts due to customers by types of economic activity

					(in thousands of Ukrainian hryvnias)
Line	**Economic activity**	**31/12/2022**		**31/12/2021**	
		amount	**%**	**amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
1	State authorities	3	0.01	8	0.01
2	Production and distribution of electricity, natural gas and water	37,440	0.46	20,693	0.28
3	Transactions with real estate, leasing, engineering and servicing	458,237	5,58	384,559	5.28
4	Trade, repair of vehicles, household equipment and items of personal use	726,558	8.84	1,051,007	14.43
5	Agriculture, hunting, forestry	18,230	0.22	29,293	0.40
6	Retail	3,056,706	37.20	2,585,168	35.48
7	Processing industry	556,088	6.77	647,896	8.89
8	Financial and insurance services	2,200,145	26.77	1,364,548	18.72
9	Construction	231,847	2.82	275,100	3.78
10	Information and telecommunications	509,329	6.20	628,936	8.63
11	Other	421,192	5.13	298,580	4.10
12	**Total amounts due to customers**	**8,215,775**	**100**	**7,285,788**	**100**

Note 15. Other borrowed funds

Table 15.1. Other borrowed funds as at 31 December 2022 and for the year then ended

			.(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Loans from international and other financial organizations	449,191	343,999
2	**Total**	**449,191**	**343,999**

Line 2 in Note 15 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. According to the terms of the contract, the loan can be granted both in dollars and in euros.

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) or UAH 190,947 thousands at the exchange rate as of December 31, 2021;

2nd tranche – EUR 5 million (for a period of 7 years, at 0.785% per annum) or UAH 154,613 thousands at the exchange rate as of December 31, 2021;

During 2022, the Bank did not receive new loans or tranches for other borrowed funds, and the change in other borrowed funds is related only to the devaluation of the hryvnia and the change in accrued interest.

Note 16. Provisions for credit obligations and financial guarantee contracts and other collateral

Table 16.1. Changes in provisions for credit commitments and financial guarantee contracts tracts as at 31 December 2022 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	**9,421**	**9,421**
2	Increase (decrease) in provision for impairment during the year	28,971	28,971
3	Foreign exchange differences on provisions	5,005	5,005
4	**Balance at 31 December 2022**	**43,397**	**43,397**

Line 4 in Table 16.1 corresponds to account "Provisions for credit obligations and financial guarantee contracts" in the statement of financial position. The change in provisions for impairment and lending liabilities on stadges disclosed in Note 31.

Table 16.2. Changes in provisions for credit commitments and financial guarantee contracts 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**	**4**
1	Balance at the beginning of the year	**15,944**	**15,944**

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Credit-related commitments**	**Total**
1	**2**	**3**	**4**
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 16.2 corresponds to account "Provisions behind loan commitments and financial guarantee contracts" in the statement of financial position.

Note 17. Other collateralTable 17.1. Changes in provisions for other collateral as at 31 December 2022 and for the year then ended.

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**		**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	**88,585**	**88,585**
2	Increase in provision for impairment during the year	(852)	(852)
3	Revaluation	26,805	26,805
4	**Balance at 31 December 2022**	**114,538**	**114,538**

Line 4 in Table 17.1 corresponds to account "Provisions behind loan commitments and financial guarantee contracts" in the statement of financial position.

As of December 31, 2022, the Bank's fixed assets in the amount of UAH 4,457,000 (Note 11) were seized on the basis of a lawsuit, according to which there is a probable outflow of resources (2021: there were no such fixed assets).

As of December 31, 2022, disputes over UAH 59,624 thousands (2021: UAH 14,581 thousands) 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 17.2. Changes in provisions for other collateral 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 17.2 corresponds to account "Other collateral" in the statement of financial position.

Note 18 Other financial liabilities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	4,010	4,011
2	Accounts payable on transactions with customers	9,068	14,648
3	Accounts payable on debit and credit cards	54,947	34,233

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
4	Foreign exchange transactions and settlements	4,288	18
5	Provisions for other labour payables	27,339	15,267
6	Lease liabilities	63,153	55,281
7	Other debt	9,346	2,375
8	**Total other financial liabilities**	**172,151**	**125,833**

Line 8 in Note 18 corresponds to account "Other financial liabilities" in the statement of financial position.

Note 19. Other non-financial liabilities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Accounts payable on taxes other than income tax	16,294	12,063
2	Accounts payable on labour	5,523	6,250
3	Accounts payable on asset acquisitions	4,603	8,938
4	Deferred income	6,412	10,708
5	Accounts payable on recruitment services	44,123	18,951
6	Accounts payable on technical support and software maintenance services	71	766
7	Accounts payable on services and security	5,615	5,272
8	Accounts payable on services related to bad debt recovery	-	61
9	Settlements via payment systems and Ukrainian Processing Center	6,150	7,469
10	Other debt	32	91
11	**Total other non-financial liabilities**	**88,823**	**70,569**

Line 11 in Note 19 corresponds to account "Other non-financial liabilities" in the statement of financial position.

Note 20. 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 2021**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
2	Contributions for newly issued shares	-	-	-	-	-
3	**Balance at 31 December 2021 (balance at 1 January 2022)**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
4	Contributions for newly issued shares	-	-	-	-	-
5	**Balance at 31 December 2022**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**

As at 31 December 2022 and 31 December 2021, preference shares outstanding amount to 1,500 shares in total.

As at 31 December 2022 and 31 December 2021, 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 21. Revaluation reserves (components of other comprehensive income)

Table 21.1. Securities revaluation reserves

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Balance at 1 January	**926**	**(2,753)**
2	Changes in gains/losses arising from revaluation of securities at FVTOCI:	(879)	3,632
2.1	changes in revaluation to fair value	(879)	3,632
3	Income tax related to change in reserve for investments in securities	(47)	47
4	**Total revaluation reserves less income tax**	**-**	**926**

Table 21.2. Movements in revaluation reserve for property, plant and equipment

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Balance at 1 January	**229,658**	**213,575**
2	Revaluation of PP&E	46,620	20,141
2.1	changes in revaluation to fair value	46,620	25,503
2.2	realised gain/loss on revaluation attributed to retained earnings	-	(5,362)
3	Income tax related to revaluation of property, plant and equipment	(8,421)	(4,058)
4	**Total revaluation reserves less income tax**	**267,857**	**229,658**

Table 21.3. Results of adjusting the value of financial instruments in transactions with shareholders

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Balance at 1 January	**-**	**94**
2	Results of adjusting the value of financial instruments in transactions with shareholders	5	(115)
2.1	Gain recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	21	63
2.2	(Loss) recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	-	(44)
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	(16)	(134)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
3	Income tax related to changes in the adjustment of the value of financial instruments in transactions with the Bank's shareholders	(1)	21
4	**Total adjustments of the value of financial instruments, net of income tax**	**4**	**-**

Note 22. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	Notes	31 December 2022			31 December 2021		
			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	2,409,276	-	2,409,276	937,739	-	**937,739**
2	Loans and advances to banks	7	132,464	-	132,464	-	-	**-**
3	Loans and advances to customers	8	2,193,569	1,501,282	3,694,851	2,772,505	1,995,767	**4,768,272**
4	Investments in securities	9	3,344,212	-	3,344,212	3,185,489	-	**3,185,489**
5	Investment property	10	-	6,831	6,831	-	12,777	**12,777**
6	Current income tax receivable		29	-	29	29	-	**29**
7	Intangible assets other than goodwill	11	-	155,190	155,190	-	151,398	**151,398**
8	Fixed assets	11	22,614	371,114	393,728	26,704	291,300	**318,004**
9	Other financial assets	12	46,341	-	46,341	22,199	-	**22,199**
10	Other non-financial assets	13	27,060	-	27,060	16,215	-	**16,215**
11	Non-current assets or disposal groups classified as held for sale or held for payment to owners	10	6,070	-	6,070	-	-	**-**
12	**Total assets**		**8,181,635**	**2,034,417**	**10,216,052**	**6,960,880**	**2,451,242**	**9,412,122**
	LIABILITIES							
13	Due to customers	14	8,214,592	1,183	**8,215,775**	7,273,591	12,197	**7,285,788**
14	Derivative financial liabilities		-	-	**-**	76	-	**76**
15	Debt securities issued by the Bank		1	-	**1**	1	-	**1**
16	Other borrowed funds	15	40,817	408,374	**449,191**	-	343,999	**343,999**
17	Deferred tax liabilities	28	31,475	-	**31,475**	9,237	-	**9,237**
18	Provisions behind loan commitments and financial guarantee contracts	16, 17	124,525	33,410	**157,935**	92,392	5,614	**98,006**
19	Other financial liabilities	18	137,210	34,941	**172,151**	101,981	23,852	**125,833**
20	Other non-financial liabilities	19	88,629	194	**88,823**	70,565	4	**70,569**
21	**Total liabilities**		**8,637 249**	**478,102**	**9,115,351**	**7,547,843**	**385,666**	**7,933,509**

Note 23. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Item	2022	2021
1	**2**	**3**	**4**
	Interest income		
1	Interest income on loans and advances to banks	11,971	291
2	Interest income on loans and advances to customers	462,315	339,551
3	Interest income on investments in securities at AC	367,817	80,582
4	Interest income on investments in securities at FV	60,359	131,767
5	**Total interest income**	**902,462**	**552,191**
	Interest expense:		
6	Interest expenses on term deposits of corporate customers	(135,323)	(35,726)
7	Interest income on term deposits of individuals	10,413)	(15,539)
8	Interest income on overnight loans from other banks	(16)	(7)
9	Interest expenses on other loans received from the National Bank of Ukraine through refinancing	(20,294)	(986)
10	Interest expenses on current accounts	(180,944)	(118,143)
11	Interest expenses on loans received from international and other organizations	(7,119)	(166)
12	Interest expense on lease liabilities	(8,286)	(7,363)
13	**Total interest expenses**	**(362,395)**	(177,930)
14	**Net interest income**	**540,067**	**374,261**

Line 3 and line 13 in Note 23 corresponds to account "Interest income" and "Interest expense" in the statement of profit or loss.

Note 24. Commission income and expenses

(in thousands of Ukrainian hryvnias)

Line	Item	2022	2021
1	**2**	**3**	**4**
	COMMISSION INCOME:		
1	Cash and settlement services	85,273	101,794
2	Operations with foreign currency	12,468	17,388
3	Bank commission for the lease of safe deposit boxes	12,782	14,568
4	Commission for insurance broker services	1,180	1,968
5	Commission for TaxFree check payments	280	829
6	Transactions with securities	428	794
7	Interbank transactions with plastic cards	16,098	27,668
8	Guarantees issued	8,313	8,044
9	Other	8	32
10	**Total fee and commission income**	**136,830**	**173,085**
	COMMISSION EXPENSE:		
11	Cash and settlement services	(44,733)	(47,435)
12	Commission for services and other commissions	(1,172)	(61)
13	Guarantee expenses	(328)	(435)
14	Services provided by payment systems and transactions with plastic cards	(11,670)	(12,272)
15	**Total fee and commission expense**	**(57,903)**	**(60,203)**
16	**Net fee and commission income**	**78,927**	**112,882**

Line 10 and Line 15 in Note 24 correspond to accounts "Commission income" and "Commission expense" in the statement of profit or loss.

Note 25. Impairment gains (losses) determined in accordance with IFRS 9

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2022**	**2021**
1	**2**	**3**	**4**
1	Profit (loss) from impairment of loans and advances to banks	(14)	16
2	Profit (loss) from impairment of loans and advances to customers	(267,765)	(2,574)
3	Return of previously written-off bad debts of loans to customers	3,852	7,396
4	Profit (loss) from impairment of investments in securities	53	(51)
5	Profit (loss) from impairment of other financial assets	(2,011)	(33)
6	Return of previously written-off bad financial assets	-	2
7	Profit (loss) from impairment of issued financial guarantees and similar contractual obligations	(28,972)	5,103
8	**Impairment gains (losses) determined in accordance with IFRS 9**	**(294,857)**	**9,859**

Note 26. Other income

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2022**	**2021**
1	**2**	**3**	**4**
1	Operating lease income	24	61
2	Penalties and fines received	981	509
3	Undrawn funds upon expiration of limitation period	2,535	3,980
4	Shortages charged to responsible employees	93	236
5	Result from disposal of investment property	-	1,693
6	Result from disposal of property, plant and equipment	-	2,681
7	Result from evaluation of property, plant and equipment	1,723	1,353
8	Gains from recovering an advance payment for enforcement proceedings, court fees and other related costs	263	921
9	Income from the provision of a discount for the quarantine period for the lease of the premises	3,477	797
10	Income from payment systems	1,365	-
11	Result from modification of financial assets	1,293	1,522
12	Other	1,084	1,489
13	**Total operating income**	**12,838**	**15,242**

Line 13 in Note 26 corresponds to account “Other operating income” in the statement of profit or loss.

Note 27. Other administrative and operating expenses

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2022**	**2021**
1	**2**	**3**	**4**
1	Business trips	1,306	661
2	Recruitment services	45,202	36,956
3	Maintenance of property, plant and equipment and intangible assets, telecommunication and other operation services	211,500	184,734
4	Operating lease expenses	1,229	2,316
5	Cash collection and transportation	1,517	1,276
6	Services provided by payment systems on payment cards	13,271	11,477
7	Legal services on litigations and payments to collectors	7,980	5,055

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**2022**	**2021**
1	**2**	**3**	**4**
8	Professional services	13,165	19,342
9	Marketing and advertising expenses	3,536	10,920
10	Security expenses	9,264	4,878
11	Taxes other than income tax	43,305	34,607
12	Result from disposal of fixed assets	91	-
13	Costs from impairment of fixed assets	3,901	-
14	Provision for unconfirmed cash loss risks	2,054	-
15	Provision for cover risks of losses due to lawsuits	131	88,116
16	Other	1,306	1,835
17	**Total other administrative and operating expenses**	**358,758**	**402,173**

Line 17 in Note 27 corresponds to account "Other administrative and operating expenses" in the statement of profit or loss.

Line 4 "Operating lease expenses" for 2022 and 2021 breaks down operating lease expenses by items that do not qualify for right-of-use assets IFRS 16 Leases due to 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 904,3 thousands (2021: UAH 900 thousands) is included in Article 11 "Payment of other taxes and mandatory payments other than income tax"

Note 28. Income tax expense

Table 28.1. Income tax benefits

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	**Current income tax**	**-**	**-**
2	**Change in deferred income tax resulting from:**	**(13,769)**	**-**
2.1	origination or write-off of temporary differences	(13,769)	-
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit**	**(13,769)**	**-**

Line 3 in Table 28.1 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, 2022 and 2021, the tax rate was 18%.

Table 28.2. Reconciliation of accounting loss and taxable loss

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	(Loss) before tax	(401,437)	(266,249)
2	Income tax at applicable tax rate	72,259	47,925
3	Effect of permanent tax differences	(85,563)	(46,103)
4	Changes in unrecognised deferred tax assets	-	(1,822)

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
5	Permanent differences are costs that are not included in gross costs	(465)	-
6	**Income tax benefits**	**(13,769)**	**-**

Table 28.2.1. Tax effects of deferred tax assets and liabilities recognised for 2022

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balance at 1 January 2022**	**Recognised in profit or loss during the year**	**Recognised in OCI during the year**	**Balance at 31 December 2022**
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	(10,149)	(13,769)	(8,421)	(32,339)
1.1.1	Recognized liability	(31,124)	-	(8,421)	(39,545)
1.1.2	Recognized asset	20,975	(13,769)	-	7,206
1.2	Investment securities at fair value through comprehensive income and adjustments in the cost of financial instruments at initial recognition	912		(48)	864
2	Net of deferred tax asset (liability), including:	**(9,237)**	**(13,769)**	**(8,469)**	**(31,475)**
3	**Recognized deferred tax liability (hereinafter - DTL)**	**(31,124)**	**-**	**(8,421)**	**(39,545)**
4	**Recognized deferred tax assets (hereinafter – DTA)**	**21,887**	**(13,769)**	**(48)**	**8,070**

Table 28.2.2. Unrecognised deferred tax assets for 2022

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Balance at 1 January 2022**	**Changes in unrecognised deferred tax assets at year-end 2022**	**Balance at 31 December 2022**
1	**2**	**3**	**4**	**5**
1	**Tax effect of impaired temporary differences:**			
1.1	Tax losses carried forward	514,029	67,844	581,873
1.2	Provisions for liabilities and other assets	19,664	5,049	24,713
1.3	Property, plant and equipment, intangible assets and investment property	8,305	(1,099)	7,206
2	**Total DTA (deferred tax asset)**	**541,998**	**71,794**	**613,792**
3	**Provision for impairment of deferred tax assets**	**(521,023)**	**(85,563)**	**(606,586)**

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Balance at 1 January 2022**	**Changes in unrecognised deferred tax assets at year-end 2022**	**Balance at 31 December 2022**
1	**2**	**3**	**4**	**5**
3.1	Provision for tax losses carried forward	(493,054)	(81,613)	(574,667)
3.2	Provision for impairment of other deferred tax assets	(27,969)	(3,950)	(31,919)
4	**Net recognized DTA (deferred tax asset)**	**20,975**	**(13,769)**	**7,206**

Table 28.3.1. Tax effects of deferred tax assets and liabilities recognised for 2021

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balance at 1 January 2021**	**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 liability (hereinafter - DTL)**	(27,066)	-	(4,058)	(31,124)
4	**Recognized deferred tax assets (hereinafter – DTA)**	**21,819**	**-**	**68**	**21,887**

Table 28.3.2. Unrecognised deferred tax assets for 2021

(in thousands of Ukrainian hryvnias)				
Line	**Item**	**Balance at 1 January 2021**	**Changes in unrecognised deferred tax assets at year end 2021**	**Balance at 31 December 2021**
1	**2**	**3**	**4**	**5**
1	**Tax effect of impaired temporary differences:**			

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2021	Changes in unrecognised deferred tax assets at year end 2021	Balance at 31 December 2021
1	2	3	4	5
1.1	Tax losses carried forward	478,590	35,439	514,029
1.2	Provisions for liabilities	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**

Note 29. (Loss)/gain per ordinary share and preference share

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2022	31/12/2021
1	2	3	4
1	Loss attributable to holders of ordinary shares	(415,206)	(266,249)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(415,206)	(266,249)
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)	(0.25)	(0.16)
7	Basic and diluted gain per preference share (in UAH)	0.10	0.10

Note 30. Dividends

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2022		31/12/2021	
		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. 2/2022 dated 4 April 2022, dividends on preference shares payable for 2021 were calculated and transferred to the Bank's reserves.

Note 31. Contingent liabilities

Capital investment commitments

As of December 31, 2022, the Bank had obligations related to the acquisition of fixed assets and intangible assets in the amount 685 thousand UAH. (2021: UAH 3,851 thousand). Potential liabilities for legal actions are disclosed in Note 17.

Table 31.1. Structure of credit-related commitments

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	Unused credit lines	1,515,948	2,320,892
2	Export letters of credit	275,703	385,259
3	Guarantees issued	1,947	9,546
4	Provision for credit-related commitments	(43,397)	(9,421)
5	**Total credit-related commitments less provisions**	**1,750,201**	**2,706,276**

Table 31.2. Changes in lending commitments for 2022

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	**Liabilities at the beginning of the period**	2,715,562	129	6	2,715,697
2	**Increase in the amount of liabilities for the period**	3,330,535	883,423	94	4,214,052
2.1	New liabilities	861,500	9,402	6	870,908
2.2	Increase in the amount of current liabilities	1,780,065	129,982	56	1,910,103
2.3	The amount of transition between stages	74	714,782	32	714,888
2.4	Exchange rate differences	688,896	29,257	-	718,153
3	**Decrease in the amount of liabilities for the period**	(4,528,353)	(607,724)	(74)	(5,136,151)
3.1	Liabilities repaid	(1,701,111)	(15,022)	(41)	(1,716,174)
3.2	Obligations that have expired	(1,829,473)	(583,447)	-3	(2,412,923)
3.3	The amount of transition between stages	(714,782)	(76)	(30)	(714,888)
3.4	Exchange rate differences	(282,987)	(9,179)	-	(292,166)
4	**Liabilities at the end of the period**	**1,517,744**	**275,828**	**26**	**1,793,598**

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 31.3. Changes in provisions for other liabilities and contracts of financial guarantee as of 31.12.2022 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 liabilities as of the beginning of the period	9,417	3	1	9,421
2	Increase in the amount of liabilities for the period	11,957	98,029	15	110,001
2.1	Provision for new liabilities	3,794	735	1	4,530
2.2	Provision for increase in liabilities	5,777	15,924	4	21,705
2.3	Increasing of provision from the transition between stages	26	73,818	5	73,849
2.4	The amount of transition between stages	-	3,451	5	3,456
2.5	Exchange rate differences	2,360	4,101	-	6,461
3	Decrease in the amount of liabilities for the period	(17,713)	(58,301)	(11)	(76,025)
3.1	Decrease in the provision for closing liabilities	(3,842)	(24,397)	(1)	(28,240)
3.2	Decrease of the provision for decrease of liabilities	(9,285)	(33,577)	(5)	(42,867)
3.3	Decrease of the provision from the transition between stages	-	(3)	(2)	(5)
3.4	The amount of transition between stages	(3,451)	(2)	(3)	(3,456)
3.5	Exchange Rate differences	(1,135)	(322)	-	(1,457)
4	**Provisions for liabilities at the end of the period**	**3,661**	**39,731**	**5**	**43,397**

Line 4 in Table 31.3 corresponds to account "Provisions for credit related commitments and financial guarantees" in the statement of financial position.

Table 31.4. 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	**Liabilities at the beginning of the period**	**2,413,426**	**-**	**6**	**2,413,432**
2	**Increase in the amount of liabilities for the period**	**7,029,706**	**142**	**-**	**7,029,848**
2.1	New liabilities	3,609,909	-	-	3,609,909
2.2	Increase in the amount of current liabilities	3,338,612	129	-	3,338,741
2.3	The amount of transition between stages	-	13	-	13
2.4	Exchange rate differences	81,185	-	-	81,185
3	**Decrease in the amount of liabilities for the period**	**(6,727,570)**	**(13)**	**-**	**(6,727,583)**
3.1	Liabilities repaid	(4,326,087)	-	-	(4,326,087)
3.2	obligations that have expired	(2,099,403)	(13)	-	(2,099,416)
3.3	The amount of transition between stages	(13)	-	-	(13)
3.4	Exchange rate differences	(302,067)	-	-	(302,067)
4	**Liabilities at the end of the period**	**2,715,562**	**129**	**6**	**2,715,697**

Table31.5. Changes in provisions for other liabilities 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 liabilities as of the beginning of the period	15,943	-	1	15,944
2	Increase in the amount of liabilities for the period	29,755	4	1	29,760
2.1	Provision for new liabilities	17,286	-	-	17,286
2.2	Provision for increase in liabilities	12,005	-	-	12,005
2.3	Increasing of provision from the transition between stages	-	4	-	4
2.4	The amount of transition between stages	-	-	1	1
2.5	Exchange rate differences	464	-	-	464
3	Decrease in the amount of liabilities for the period	(36,281)	(1)	(1)	(36,283)
3.1	Decrease in the provision for closing liabilities	(2,124)	(1)	-	(2,125)
3.2	Decrease of the provision for decrease of liabilities	(32,274)	-	-	(32,274)
3.3	Decrease of the provision from the transition between stages	-	-	-	-
3.4	The amount of transition between stages	-	-	(1)	(1)
3.5	Exchange Rate differences	(1,883)	-	-	(1,883)
4	**Provisions for liabilities at the end of the period**	**9,417**	**3**	**1**	**9,421**

Table 31.6. Credit-related commitments by currencies (including provisions)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	UAH	470,222	831,374
2	USD	-	104,075
3	EUR	1,279,978	1,770,827
4	**Total**	**1,750,200**	**2,706,276**

Note 32. 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.

One of the Bank's main risks in 2022 is the external political risk associated with Russia's attack on the territory of Ukraine. The main risk factors: loss of human resources and material values due to waging a full-scale war; the availability of loans and the placement of their collateral in regions where active hostilities are taking place.

In order to minimize and avoid excessive risks due to risk factors caused by war, the Bank operates in conditions of ensuring business continuity, namely: continuous communication with employees, their removal from active combat zones to guarantee their safety and the ability to support the Bank's work and access to all necessary services for clients; closure of branches in the most dangerous areas (to minimize the risk of loss of human resources and material values); constant monitoring of loan collateral (if possible), constant analysis of the quality of the loan portfolio (if possible), work with problem borrowers (if possible), introduction of "credit holidays".

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Credit risk

Credit risk is the probability of losses or additional losses or failure to receive planned income as a result of the debtor's/counterparty's failure to fulfill the obligations assumed in accordance with the terms of the contract.

Credit risk arises from all active banking operations, with the exception of debt securities and other financial instruments in the Bank's trading book.

Credit risk is contained in all types of activities where the outcome depends on the activities of the contractor, issuer or borrower. This occurs every time the Bank pays funds, commits to their submission, invests funds or otherwise risks them in accordance with the terms of actual or notional agreements, regardless of whether the transaction is on-balance sheet or off-balance sheet.

The Bank calculates the amount of credit risk by assets on an individual or group basis.

The Bank includes active operations with counterparties as types of operations that cause credit risk: customer loans, bank loans, securities, receivables, guarantees, letters of credit, overdrafts.

The objective 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 in the organization are ready to take over. The bank manages the credit risk inherent in the entire portfolio, as well as the risk in individual loans or operations.

The Bank combines financial assets with similar characteristics into groups with similar characteristics, in particular:

1) orientation;

2) type of product;

3) smallness, which is applied to loans that are combined in:

- groups of loans granted to debtors to legal entities (except for debtors – condominiums, housing complexes);
- groups of loans granted to debtors - natural persons, for which mortgage items are collateral;
- groups of loans granted to debtors - natural persons, for which purchased vehicles are collateral;
- groups of loans granted to debtors - natural persons, secured by other types of collateral;
- groups of loans granted to debtors - natural persons, unsecured.

4) the materiality of the amount of individual claims (the maximum amount of debt for several loans of one debtor/counterparty included in the group cannot exceed the limit established for the corresponding group);

5) frequency and amount of debt payment by the debtor, which are determined by the terms of the loan agreement.

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.

To reduce credit risk, a system of types and conditions of credit operations is used regarding terms, borrowers, security, interest rates and methods (methods) of their accrual, limitation, diversification of the credit portfolio, creation of reserves, monitoring and control of risks.

In order to mitigate the impact of credit risk on the Bank, in addition to the already defined actions, the risk management department performs the following actions:

- 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 credit risk factor is the presence of overdue debt and accrued outstanding income. In 2022, a grace period for loans for clients was introduced; work with clients continues to gradually repay problematic debts, which reduces the level of existing risk and negative impact on the Bank's regulations; restrained and selective lending to the corporate segment is carried out with strict credit risk control.

The risk management department is responsible for the development of separate high-level internal documents necessary to ensure effective credit risk management: policies, guidelines and basic documents (methodologies, implementation procedures, etc.). High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, as well as an escalation process, and should be approved by the relevant collegial body. The main documents must also be approved by the relevant collegial body. The bank can combine internal documents in one or more. Credit write-offs are regulated by relevant internal documents.

The carrying amount of items in the statement of financial position, including derivative financial instruments, best reflects the maximum credit risk for such items. For financial instruments recorded at fair value, their book value reflects the current, and not the maximum amount of credit risk, which may change in the future due to changes in value.

Market risk

Market risk is the probability of losses or additional losses or failure to receive planned income as a result of unfavorable changes in foreign currency exchange rates, interest rates, and the cost of financial instruments. It can also be defined as the risk of losses on balance sheet and off-balance sheet positions arising as a result of adverse changes in market prices. From a regulatory point of view, market risk arises from all positions included in the banks' trading book, as well as from commodity and currency risk positions throughout the balance sheet.

The Bank is exposed to market risk arising from open positions sensitive to changes in interest rates, exchange rates and other market risk factors, which largely depend on general and specific market changes. This is the risk that the fair value or future cash flows of financial instruments will change due to fluctuations in market variables such as interest rates, currency exchange rates and security yields.

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

In order to reduce the impact of market risk on the Bank, in addition to the already defined actions, the risk management department performs the following actions:

- daily monitors the level of the open currency position;
- daily forecasts the value of the open currency position and its relation to the regulatory capital;
- daily analyzes market changes taking into account the dynamics of exchange rates and market prices for securities;
- daily assesses market risk by calculating value at risk (VaR) for currency risk;
- establishes the relationship between the quantitative assessment of market risk and the Bank's profit.

The risk management department is responsible for the development of separate high-level internal documents necessary to ensure effective market risk management: policies, guidelines and basic documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, and an escalation process, and should be approved by the relevant collegial body. The main documents must also be approved by the relevant collegial body. The bank can combine internal documents in one or more. The bank should develop documents for managing the market risk of the trading book only if such transactions are planned, and in advance before their implementation.

Currency risk

Currency risk arises due to adverse fluctuations in foreign exchange rates affecting assets, liabilities and off-balance sheet positions contained in the Bank's trading and banking books.

The Bank's main approach and tool for currency risk management is limiting. The bank applies this tool by setting risk appetites and limits:

- on the ratio of value at risk (VaR) to regulatory capital (it was observed: as of 31/12/2022 with a value of 0.18%, risk appetite is 1%, as of 12/31/2021 – 0.01%, risk appetite – 1%);
- to the total open currency position of the Bank, in accordance with the normative requirements of the NBU regarding regulatory capital (it was observed: as of 31/12/2022, the value of the total short open currency position of the Bank is 2.46% and the total long open currency position of the Bank is 0.56%, limit < 5% for the total short and long open currency position, as of 12/31/2021 – 0.74% and 1.55%, respectively, limit < 15% for total short and long open currency position);
- the internal limits of the currency position in terms of currencies were observed for US dollars and euros separately and for the total open currency position of the Bank in absolute terms for all currencies;
- sublimits for the total short and long open currency position of the Bank for cash and bank metals were observed.

The system of internal limits makes it possible to comprehensively and adequately manage the amount of currency risk using the principles of risk management adopted by the Bank. For currency risk management, the Bank has established a general risk appetite, limits and sublimits for the Bank's divisions in accordance with the requirements of the NBU. Such limits are necessary to prevent unexpected losses from significant fluctuations in exchange rates.

The currency risk factor is the dependence on fluctuations in the exchange rate of foreign currencies. The Bank's influence: control over the open currency position, achieving the maximum possible size of the "closed" position, taking into account the peculiarities of calculations implemented by the NBU during 2022. The temporary fixation of the hryvnia exchange rate, which is supposed to restrain the likely deterioration of expectations and the increase in the price of imported goods (back in March 2022, the fixation remained only for the exchange rate of the hryvnia to the US dollar, and other currencies changed in accordance with the official exchange rate of the hryvnia to foreign currencies) also had an impact on currency risk of the Bank and economic regulations of the NBU, especially during a sharp increase in the exchange rate on 21/07/2022.

Table 32.1. Currency risk analysis

(in thousands of Ukrainian hryvnias)

Line	Cur-rency	31/12/2022			31/12/2021			
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Deriva-tive financial liabilities	Net position
1	2	3	4	5	6	7	8	9
1	USD	2,198,916	2,318,765	(119,849)	1,422,167	1,385,284	(81,835)	(44,952)
2	EUR	1,411,236	1,444,599	(33,363)	1,060,344	1,186,540	81,824	(44,372)

(in thousands of Ukrainian hryvnias)								
Line	**Cur-rency**	**31/12/2022**			**31/12/2021**			
		Monetary assets	**Monetary liabilities**	**Net position**	**Monetary assets**	**Monetary liabilities**	**Deriva-tive financial liabilities**	**Net position**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
3	GBP	3,145	3,656	(511)	3,453	3,216	-	237
4	Other	20,384	16,835	3,549	23,606	17,954	-	5,652
5	**Total**	**3,633,681**	**3,783,855**	**(150,174)**	**2,509,570**	**2,592,994**	**(11)**	**(83,435)**

Table 32.2. 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)					
Li-ne	**Item**	**Weighted average FX rate at 31/12/2022**		**Weighted average FX rate at 31/12/2021**	
		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 %	(23,970)	(23,970)	7,379	7,379
2	USD weakening by 20 %	23,970	23,970	(7,379)	(7,379)
3	EUR strengthening by 20 %	(6,673)	(6,673)	(26,371)	(26,371)
4	EUR weakening by 20%	6,673	6,673	26,371	26,371
5	GBP strengthening by 20%	(102)	(102)	48	48
6	GBP weakening by 20%	102	102	(48)	(48)
7	Strengthening of other currencies by 20%	710	710	1,182	1,182
8	Weakening of other currencies by 20%	(710)	(710)	(1,182)	(1,182)

Interest rate risk in the banking book

The interest rate risk factor is the dependence on fluctuating interest rates on financial instruments. The Bank pursues a balanced policy to achieve a balance between assets and liabilities.

Interest rate risk of the banking book is the probability of losses or additional losses or failure to receive planned income as a result of the impact of adverse changes in interest rates on the banking book. It refers to the current or anticipated risk to the Bank's capital and income arising from adverse changes in interest rates that affect the bank's book position. When interest rates change, the current value and timing of future cash flows change. This, in turn, changes the underlying value of the Bank's assets, liabilities and off-balance sheet items, and therefore 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 interest rate risk management of the banking book is to keep the impact of the Bank's interest rate risk within self-established parameters within the range of possible changes in interest rates.

In order to reduce the impact of interest rates on the Bank's activities, in addition to the already defined actions, the risk management department performs the following actions:

- conducts a monthly GAP analysis of interest-bearing assets and liabilities;
- performs a monthly analysis of the dynamics of yield curves in major currencies (hryvnia, dollar, euro);
- monthly assesses the interest rate risk of the banking book by calculating offsets for:

- the economic value of EVE's capital according to the approach of the Parent Company - an increase in the yield curve by 100 bp. (the value of the Bank was observed within the framework of the established risk appetites (RAF): as of 12/31/2022, the value is -0.75 million euros, the risk appetite is +1.5 / -4 million euros; as of 12/31/2021, it is - 1.83 million euros, the risk appetite is +1.5 / -4 million euros);
- net interest income of NII according to the approach of the Parent Company – a negative result for an increase / decrease of the yield curve by 50 bp. (the value of the Bank was observed within the framework of the established risk appetites (RAF): as of 12/31/2022 the value is -0.11 million euros, the risk appetite is < -1 million euros; as of 12/31/2021 it is -0.20 million EUR, risk appetite is < -1 million EUR);
- the economic value of EVE's capital and NII's net interest income according to the NBU's approach - the maximum negative shift (the Bank's value was respected within the framework of established risk appetites (RAS));

- performs a monthly analysis by terms and individual currencies (the value of the Bank was observed within the established limits);
- establishes the ratio of the quantitative assessment of the interest rate risk of the banking book (the maximum negative value calculated according to the NBU approach) for NII with the Bank's profit (it was observed: as of 12.31.2022 the value is 4.54%, the limit is <25%; as of 12.31. 2021 is 7.07%, the limit is <15%) and for EVE to the regulatory capital of the Bank (it was observed: as of 12/31/2022 the value is 3.85%, the limit is <35%; as of 12/31/2021 it is 9.77 %, the limit is <20%).

The Risk Management Department is responsible for the development of separate high-level internal documents necessary to ensure effective interest rate risk management of the banking book: policies, guidelines and basic documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, as well as an escalation process, and should be approved by the relevant collegial body. The main documents must also be approved by the relevant collegial body. The bank can combine internal documents in one or more.

Table 32.3. General analysis of the interest rate risk

In the general analysis of interest rate risk as of December 31, 2022 and 2021, financial assets and financial liabilities that are not sensitive to interest rate changes are not taken into account, namely: funds of the Bank's mandatory reserves at the National Bank of Ukraine; other financial assets; other financial obligations.

For financial instruments sensitive to interest rate changes and presented in the Bank's balance sheet, fixed and floating rates are provided, which are reviewed in accordance with the contracts 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 hryvnia (Loans and advances to customers, in particular long-term loans to individuals), only fixed rates are provided for all other financial assets and liabilities.

The impact of a change in financial instruments sensitive to changes in the interest rate is assessed by calculating monthly shifts for the economic value of capital (EVE) and net interest income (NII).

According to the approach of the Parent Company:

- for the EVE method, it is assumed that long-term financial instruments have the greatest influence. The interest rate change scenarios 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 when the yield curve increases by 100 bps;

- for the NII method, which considers financial instruments with a term of up to 1 year, it is assumed that the most influential are financial instruments on demand. The interest rate change scenarios for the Bank are considered as follows: with the current distribution of assets and liabilities, net interest losses are observed when the yield curve increases by 50 bp.

According to the NBU's approach, the maximum negative value from 4 mandatory and 2 additional scenarios is considered (the Bank considers all 6 scenarios). If there is a positive change in the value of a single currency, which leads to a decrease in the value of all currencies, this currency is taken into account in the amount of only 50%:

- for the EVE method, it is assumed that financial instruments with the most significant duration have the greatest influence. The interest rate change scenarios 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 an increase in the yield curve for various scenarios for the local currency (hryvnia) and with a decrease/increase in the yield curve for US dollars and euros (depending on the specifics of a particular scenario), in general the local currency has the greatest impact;
- for the NII method, which considers financial instruments with a term of up to 1 year, it is assumed that the most influential are financial instruments with the shortest terms, and demand funds and instruments with an overnight term have no influence due to the peculiarity of their inclusion. The interest rate change scenarios for the Bank are considered as follows: with the current distribution of assets and liabilities, net interest losses are observed when the yield curve increases for various scenarios for the local currency (hryvnia) and when the yield curve decreases for US dollars and euros, as a result the local currency has the biggest impact.

As stated above, during 2022 and 2021, the Bank adhered to the established risk appetites and limits determined within the framework of 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**
31/12/2022						
1	Total financial assets	4,237,242	1,256,076	223,268	1,501,282	7,217,868
2	Total financial liabilities	7,331,569	943,818	117,232	444,499	8,837,118
3	Net interest rate gap at the end of the period	(3,094,327)	312,258	106,036	1,056,783	(1,619,250)
31/12/2021						
4	Total financial assets	2,883,869	2,367,464	728,860	1,995,767	7,975,960
5	Total financial liabilities	6,643,245	509,425	222,979	380,048	7,755,697
6	Net interest rate gap at the end of the period	(3,759 376)	1,858,039	505,881	1,615,719	220,263

Table 32.4. Monitoring of interest rates on financial instruments;

									(%)
Li-ne	**Item**	**31/12/2022**				**31/12/2021**			
		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	-	-	1.96	-	-	-	-	-

									(%)
Li-ne	**Item**	**31/12/2022**				**31/12/2021**			
		UAH	**USD**	**EUR**	**other**	**UAH**	**USD**	**EUR**	**other**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
3	Loans and advances to customers	14.48	4.75	3.73	-	11.62	3.24	3.36	-
4	Investments in securities at amortised cost	23.00	-	-	-	8.37	-	-	-
5	Investments in securities at FVTOCI	-	-	-	-	10.24	-	2.50	-
Liabilities									
6	Due to customers								
6.1	current accounts	0.69	0.01	-	-	0.68	0.04	0.01	-
6.2	term deposits	16.06	0.86	0.49	-	8.08	1.87	0.7	-
7	Debt securities issued by the Bank	-	-	-	-	-	-	-	-

Other price risk

For the Bank, another price risk arises when investing funds in securities. Investments in securities are carried out within the established limits. Approval of limits for transactions with securities is carried out by the relevant committee of the Parent Company. Limits are established by issuers and individual issues of securities. Limits are set for a limited period of time, after which they are subject to review.

The issue of the need to set limits is initiated by the treasury and stock markets department of the main financial administration. The risk management department prepares conclusions about the possibility of setting such limits, after which the appropriate materials are submitted for consideration to the relevant committee of the Parent Company. After receiving approval, the internal document with the specified limits is approved at the Bank level.

Monitoring of compliance with established limits is carried out on an ongoing basis by the risk management department.

Geographic risk

Geographical risk is determined by the specificity of a certain administrative or geographical area, which is characterized by conditions different from the average conditions of the country as a whole. The differences may relate to climatic, national, political, legislative and other features of the region, which affect the borrower's condition and are a component of credit risk.

The concentration of assets and liabilities by region is given in tables 32.5, 32.6.

Table 32.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2022

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
Assets					
1	Cash and cash equivalents	444,808	1,963,482	986	2,409,276
2	Loans and advances to banks	-	132,464	-	132,464
3	Loans and advances to customers	3,689,805	-	5,046	3,694,851

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
4	Investments in securities	3,344,212	-	-	3,344,212
5	Other financial assets	45,833	503	5	46,341
6	**Total assets**	**7,524,658**	**2,096,449**	**6,037**	**9,627,144**
Liabilities					
7	Due to customers	8,059,464	82,012	74,299	8,215,775
8	Debt securities issued by the Bank	1	-	-	1
9	Other borrowed funds	-	449,191	-	449,191
10	Other financial liabilities	166,478	4,038	1,635	172,151
11	**Total liabilities**	**8,225,943**	**535,241**	**75,934**	**8,837,118**
12	Net balance sheet position	(701,285)	1,561,208	(69,897)	790,026

Table 32.6. 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

Liquidity risk

Liquidity risk is the probability of losses or additional losses or failure to receive planned income as a result of the Bank's inability to finance the growth of assets and/or fulfill its obligations in due time. It is also defined as the risk of the Bank not being able to fulfill its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).

The types of operations causing 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 a period of liquidity stress affecting both secured and unsecured funding, the source of which may be a particular bank or the entire market.

Liquidity management is carried out by the Department of Treasury and Stock Markets. Liquidity risk management is controlled by the risk management department.

Tasks of liquidity risk management within the operating day:

- ensuring that the Bank has sufficient funds to cover planned and unplanned liquidity needs;
- ensuring the execution of banking operations in accordance with established limits, procedures and rules;
- compliance with the requirements of the NBU regarding liquidity standards, mandatory reserve norms, etc.

The process of liquidity management within the operating day is managed by the department of treasury and stock markets of the main financial department. And the liquidity risk management process is managed by the treasury and stock markets department of the main financial department and the risk management department.

The term liquidity management process is carried out by the treasury and stock markets department of the main financial department and the risk management department.

The liquidity risk factor is certain inconsistencies between the terms of attracting funds from clients and the placement of the Bank's resources, which is caused by the market situation and the structure of the Bank's balance sheet, and the instability of the resource base of the banking system. The Bank's influence is the control of liquidity gaps, attracting funds from clients, taking a long-term blank refinancing loan from the NBU.

In the conditions of martial law, the Bank pays considerable attention to ensuring the necessary amount of liquid funds, sufficient both to meet the requirements of the NBU regarding liquidity, and to provide effective customer service.

Thus, as of December 31, 2022, the volume of funds (cash, funds on a correspondent account with the NBU and on correspondent accounts in other banks) amounted to UAH 2,419 million. equivalent, or 24% of the total volume of the Bank's assets, the volume of high-quality liquid securities (certificates of deposit of the National Bank of Ukraine) - 3,340 million UAH (by nominal value), or 33% of the total volume of the Bank's assets.

As of December 31, 2021, the amount of cash amounted to UAH 939 million. equivalent, or 10% of the total volume of the Bank's assets, the volume of high-quality liquid securities (government securities and certificates of deposit of the National Bank of Ukraine) – 3,147 million UAH (by nominal value), or 33% of the total volume of the Bank's assets.In order to reduce the impact of liquidity risk on the Bank, in addition to the already defined actions, the risk management department carries out the following actions:

- performs daily analysis of high-quality liquid assets (HQLA) and their trends;
- monthly assesses liquidity risk by calculating LCR and NSFR (Net Stable Funding Ratio) (risk appetites and internal limits are observed by the Bank):
  - as of 12/31/2022 LCR was 372%, risk appetite is 110% and early warning limits (EWL) – 120% (as of 12/31/2021 LCR was 193%, risk appetite is 105% and EWL – 115%) ;
  - as of 12/31/2022, NSFR was 160%, risk appetite is 102.5%, and EWL is 104% (as of 12/31/2021, NSFR was 150%, risk appetite is 102%, and EWL is 104%);
- calculates NBU liquidity indicators daily/every decade:
  - daily LCR standard in all currencies (the value of the Bank within the established regulatory values: as of 12/31/2022, the value is 176.3%, the limit is >100%; as of 12/31/2021, it is 162.6%, the limit is >100%);

- daily LCR standard in foreign currencies (the Bank's value within the established regulatory values: as of December 31, 2022 is 293.6%, the limit is >100%; as of December 31, 2021, it is 197.3% with a limit >100%);
- the NSFR standard in all currencies every decade (the Bank's value within the established regulatory values: as of 12/31/2022 is 123.6%, the limit is >90%; as of 12/31/2021 is 127.3%, the limit is >90%) ;
- the NSFR standard in foreign currencies and the NSFR standard in hryvnia every decade (calculated every decade without the normative value of the limit set by the NBU);

- monthly conducts GAP analysis based on contractual cash flows (GAP analysis is carried out to analyze the possibility of compliance with NBU regulatory values, risk appetites, internal limits in order to forecast the possibility of ensuring high-quality work of the Bank);
- daily monitors internal concentration limits established by relevant internal documents.

Control of liquidity management is carried out by the department of treasury and stock markets of the main financial department. Liquidity management takes place with the participation of the Assets and Liabilities Management Committee, the Risk Management Department, the Chief Financial Department, the Chief Department of Retail Business, the Chief Department of Corporate Business and the Parent Company.

Liquidity management in case of crisis circumstances due to deterioration of the Bank's financial condition is specified in the Liquidity Management Plan in emergency situations (hereinafter - Action Plan or CLP).

The purpose of the Action Plan is to protect the Bank's assets and, at the same time, guarantee the continuity of operations in conditions of extreme liquidity need, ensures:

- identification of early warning signals, their constant monitoring and determination of procedures to be implemented in situations of liquidity stress;
- the legality of the work of the management responsible for liquidity management in emergency situations, which should be able to quickly and sometimes radically change the structure of the balance sheet of assets and liabilities;
- strategies and measures for dealing with liquidity emergencies (Contingency Funding Plan – CFP).

An early warning scorecard is developed at the individual level and CLP is monitored on a daily basis by the risk management department. The adequacy of these indicators and their combinations should be evaluated at least annually.

The parties responsible for liquidity risk monitoring and management are obliged to immediately report any situations of potential danger, even if it is not detected by a certain system of early warning indicators.

It is noted that the Contingency Liquidity Management Plan (CLP) is part of the Crisis Management Plan adopted by the Bank and the Parent Company and it represents the first step in the escalation process to manage a potential liquidity crisis. To this end, the CLP Early Warning Scorecard is designed to highlight potential deterioration in a company's liquidity while predicting recovery performance triggers.

During the activation of the Recovery Plan, the Bank activates both the already planned CLP management measures – even if of a different duration and size – and other possible follow-up mitigation measures.

The Risk Management Department is responsible for monitoring the early warning indicators for CLP and reporting the status daily to the relevant members of the competent authorities. More detailed information is defined in the relevant internal document.

The risk management department is responsible for the development of separate high-level internal documents necessary to ensure effective liquidity risk management: policies and guidelines and basic documents: methods, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, and an escalation process, and should be approved by the relevant collegial body. The main documents must also be approved by the relevant collegial body. The bank can combine internal documents in one or more.

Table 32.7. Analysis of financial liabilities by maturities as at 31 December 2022

Payment periods for undiscounted cash flows (including interest payments) under financial obligations under contracts as of December 31, 2022 are presented 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	7,243,230	842,814	183,389	1,227	-	8,270,660
1.1	due to individuals	2,914,871	102,040	62,743	1,227	-	3,080,881
1.2	other	4,328,359	740,774	120,646	-	-	5,189,779
2	Debt securities issued by the Bank	1	-	-	-	-	1
3	Other borrowed funds	-	-	48,064	344,154	82,857	475,075
4	Other financial liabilities	197,751	5,864	22,224	35,013	122	260,974
5	Unused credit lines	2,040	13,241	1,154,070	341,377	342,794	1,510,728
6	Financial guarantees	-	-	1,926	-	-	1,926
7	Other credit-related commitments	38,912	9,492	86,599	102,544	-	237,547
8	**Total potential future payments under financial liabilities**	**7,481,934**	**871,411**	**1,496,272**	**824,315**	**82,979**	**10,756,911**

Table 32.8. Analysis of financial liabilities by maturities as at 31 December 2021

Payment periods for undiscounted cash flows (including interest payments) for financial obligations under contracts as of December 31, 2021 are presented 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

							(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**
2	Derivative financial liabilities	76	-	-	-	-	76
3	Debt securities issued by the Bank	1	-	-	-	-	1
4	Other borrowed funds	-	-	5,478	235,967	127,751	369,196
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**	714,927	425,612	127,751	10,584,069

Table 32.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2022

							(in thousands of Ukrainian hryvnias)
Li-ne	**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	2,409,276	-	-	-	-	2,409,276
2	Loans and advances to banks	132,464	-	-	-	-	132,464
3	Loans and advances to customers	714,259	734,060	745,250	875,818	625,464	3,694,851
4	Investments in securities	3,344,212	-	-	-	-	3,344,212
5	Other financial assets	46,307	34	-	-	-	46,341
6	**Total financial assets**	6,646,518	734,094	745,250	875,818	625,464	9,627,144
Liabilities							
7	Due to customers	7,219,817	822,715	172,060	1,183	-	8,215,775
8	Debt securities issued by the Bank	1	-	-	-	-	1
9	Other borrowed funds	-	-	40,816	326,534	81,841	449,191
10	Other financial liabilities	111,751	5,863	19,596	34,819	122	172,151
11	**Total financial liabilities**	7,331,569	828,578	232,472	362,536	81,963	8,837,118

(in thousands of Ukrainian hryvnias)

Li-ne	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
12	**Net liquidity gap as at 31 December**	(685,051)	(94,484)	512,778	513,282	543,501	790,026
13	**Cumulative liquidity gap as at 31 December**	(685,051)	(779,535)	(266,757)	246,525	790,026	-

Maturity analysis does not reflect the historical stability of customers' current accounts. The closing of such accounts takes place over 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 the day on December 31, 2022 and 2021 arises mainly because, given the current situation in the country, individuals and legal entities do not invest funds for the long term, but mostly place funds on demand, accordingly, there is no practical possibility to avoid the data as a whole gaps.

The gap in liquidity arises due to the attraction of short-term funds of clients, namely funds on demand. However, the Bank does not use these funds for lending to clients. The bank invests these funds in government securities and NBU certificates of deposit, which are highly liquid assets; they are displayed by maturity (in the case of significant outflows of clients' funds, these assets can be easily converted into cash at any moment of time), therefore, in the period from 3 months (December 31, 2021 - 1 month), a positive value of the net liquidity gap is observed.

The bank uses term funds of clients (in hryvnias and foreign currency) for lending to clients.

Since the Bank invests free liquidity in hryvnias in highly liquid assets (government securities and certificates of deposit of the National Bank of Ukraine, which are displayed by terms until maturity), for the purposes of calculating the liquidity gap, highly liquid assets can be considered as assets on demand. Thus, as of December 31, 2021, for the purposes of calculating the liquidity gap, highly liquid assets were considered as demand assets; as of December 31, 2022, the Bank invested free liquidity only in NBU certificates of deposit, which are placed on demand (overnight). As of December 31, 2022, the liquidity gap, taking into account highly liquid assets, for funds with maturities of up to 1 month is UAH 685,051 thousands (December 31, 2021: UAH 1,497,691 thousands).

Taking into account the above, the Bank does not see the existence of a significant liquidity risk due to liquidity gaps. This situation is controlled and does not lead to violation of liquidity standards.

Table 32.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2021

(in thousands of Ukrainian hryvnias)

Li-ne	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

(in thousands of Ukrainian hryvnias)

Li-ne	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
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	

Operational risk

The Bank defines operational risk as the risk of losses arising from the failure of procedures, improper actions of personnel or internal systems, or from external events. Operational risk also includes legal risk, ICT risk, but not strategic and reputational risk.

The main operational risk of the Bank is the external risk due to the military invasion of the Russian Federation on the territory of Ukraine. The next factors are personnel, systems and information technology and process execution. The Bank cannot influence external factors, but whenever possible, it takes measures to minimize losses from the loss of human resources and material assets. For other operational risk factors, the Bank acts in accordance with the Business Continuity Plan (BCP).

The goal of operational risk management is timely identification and minimization of operational risk, as well as its prevention. The priority is to ensure the maximum preservation of assets and capital by reducing or preventing possible losses.

The risk management department supervises the operational risk management process. The Risk Management Department is responsible for the appointment of risk coordinators - responsible employees of the Bank's structural divisions for operational risk, who are responsible for operational risk management in their division.

In order to reduce the impact of operational risk on the Bank, in addition to the already defined actions, the risk management department carries out the following actions:

- coordinates the appointment of risk coordinators;
- conducts regular trainings and testing for risk coordinators;
- manages the database of operational risk events;
- develops, monitors and reports on key risk indicators;
- carries out a self-diagnosis process annually, which includes: assessment of the business environment and scenario analysis.

The main goals of operational risk management are timely identification and minimization of operational risk, as well as its prevention. The priority is to ensure the maximum preservation of assets and capital based on the reduction or prevention of possible losses. The Bank adopts an operational risk management strategy based on prudent management principles aimed at ensuring long-term strength and continuity of operations for the Bank, as well as achieving an optimal balance between growth and profitability and emerging risks.

The risk management department is responsible for the development of separate high-level internal documents necessary to ensure effective operational risk management: policies, guidelines and basic documents: methodologies, implementation procedures, etc. High-level documents should include objectives, organizational process, reporting forms and frequency, risk appetites and limits, and an escalation process, and should be approved by the relevant collegial body. The main documents must also be approved by the relevant collegial body. The bank can combine internal documents in one or more.

Risks related to the environment, social issues and intra-corporate relations

The Risk Management Department is responsible for managing the Bank's risks regarding the environment, social issues and intra-corporate relations based on current legislation and the rules of the Parent Company.

Carrying out risk profile assessment regarding the environment, social issues and intra-corporate relations of products/transactions, with the support of other control units and business units, is also a component of the risk management department.

Risks related to information security management. Technical support for the continuity of the bank's activities

In 2022, in the conditions of the war with the Russian Federation, one of the main issues on which the efforts of the Bank's management were directed was to ensure the safe and continuous operation of the institution in the conditions of military operations and all related factors, including the probability of unavailability of buildings, personnel and blackout.

Thanks to the experience gained as a result of providing work during the COVID-19 pandemic, the Bank was able to provide without significant problems:

- remote access to information resources with provision of the required level of information protection;
- the possibility of remote work of the bank's clients and giving them access to all the necessary resources;
- introduction of new systems and services, with the aim of facilitating the client's interaction and providing him with new opportunities.

The uninterrupted operation of the Bank is ensured by:

- the presence of two fully functional sites in the De Novo and B Mobile data centers, the creation of a separate data storage center in the IVM data center in Frankfurt (now the Bank has started a project to create another backup site on the basis of this data center);
- in accordance with the requirements of international standards and the requirements of the National Bank of Ukraine, the Bank provides tests for the restoration of system operation in the event of emergency events. Taking into account the current situation, all tests are carried out with a simulation of the complete destruction of one of the sites where information is processed;
- in accordance with the requirements of the National Bank of Ukraine and the requirements of the Power Banking network, of which the Bank is a member, all branches in the regions of Ukraine and critical branches in the city of Kyiv were equipped with electricity generators. Currently, the installation of backup means of network communication based on the Starlink system is underway;

- at the end of 2022, the Bank updated the business continuity plan. The plan was updated taking into account the experience gained by the Bank's specialists while working in combat conditions;
- to ensure the safe operation of branches, the Bank and the parent company developed and implemented methodologies for calculating the risks of opening branches depending on the existing factors of military influence.

The Bank considers risk factors for other types of risks to be insignificant.

Taking into account the above risk factors, the Bank has strengthened the risk management system, ensuring proper identification, objective assessment, continuous analysis, monitoring, control and reporting to ensure awareness of all interested parties and maintaining continuous communication to respond as quickly as possible to emerging risks. During 2022, despite the existing risk factors, the Bank managed to keep risks at a sufficient level, however, the war led to a deterioration of the Bank's risk appetite, which reflects the Bank's capital adequacy indicator; it is worth noting that the economic standard of the NBU H2 - the standard of sufficiency (adequacy) of regulatory capital was observed by the Bank.

The economic standards of liquidity and capital, as well as the limits of the open currency position, calculated in accordance with the normative acts of the NBU, are fulfilled by the Bank as of 12.31.2022. At the same time, the registered excess of the credit risk standard (H7) is associated with a significant level of devaluation of the hryvnia by 25% in July 2022 and the creation of additional reserves, in connection with the deterioration of the quality of the credit portfolio, which is directly related with the consequences of war. The specified information was submitted to the NBU. During 2022, the NBU did not apply measures of influence to the Bank for exceeding the standard (H7).

Note 33. Capital management

The Bank’s shareholders place much emphasis on the capital increase, specifically, on the increase of the share capital as the key component of capital.

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

- highly profitable use of own cash;
- covering all possible risks assumed by the Bank;
- optimising assets and liabilities structure by ageing and deposits.

As at 31 December 2022, according to the NBU requirements, banks must comply with the capital adequacy ratio at the level of 10% and with the common equity adequacy ratio at the level of 7% for risk-weighted assets calculated based on the NBU regulations.

As at 31 December 2022 and 2021, the Bank complied with regulatory capital adequacy ratio (N2) at 13.87% (31 December 2021: 19.82%) and common equity adequacy ratio (N3) at 12.70% (31 December 2021: 18.82%).

Table 33.1. Structure of regulatory capital calculated according to the NBU requirements

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
1	**Common equity**	**621,356**	**1,078,564**
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

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2022**	**31/12/2021**
1	**2**	**3**	**4**
5	Intangible assets	(557,047)	(541,932)
6	Amortisation of other intangible assets	439,926	423,051
7	Capital investments in intangible assets	(37,507)	(31,128)
8	Uncovered losses of past years	(4,332,826)	(4,066,593)
9	Result of the current year (loss)	(466,938)	(279,316)
10	Сума балансової вартості непрофільних активів, на яку зменшується основний капітал	(5,123)	(6,389)
11	**Additional capital**	**57,305**	**57,305**
12	Result on PP&E revaluation	57,305	57,305
13	**Redeployment**	**(3)**	**(3)**
14	Carrying amount of securities that are not traded on stock exchanges carried at FV	(3)	(3)
15	**Total regulatory capital**	**678,658**	**1,135,866**

Note 34. Fair value of financial instruments

Fair value is defined as the price that would be received to sell the asset or paid to transfer the liability in an ordinary transaction in the principal (or most favorable) market at the valuation date under current market conditions (i.e. the original price), whether or not such price directly or estimated using another valuation method. The principal (or most favorable) market price used to measure the fair value of the asset or liability is not adjusted for transaction costs.

The determination of fair value is based on the assumption that the Bank will continue its activities in the future without any need for liquidation or a significant reduction in the volume of operations or carrying out operations on unfavorable terms. Fair value reflects the credit quality of the instrument, as it includes the risk that the counterparty will not fulfill its obligations.

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 through internal valuation methods in the case of other financial instruments. A market is considered active if quoted prices are readily and regularly available (through an exchange, dealer, broker, industry group, price information service or regulatory authority) and reflect actual and regularly occurring market transactions between independent parties.

When the market does not function regularly, i.e. when the market does not have sufficient volatility and a constant number of transactions and the difference between the purchase and sale price is insufficient, the fair value of financial instruments is determined mainly by using valuation methods, the purpose of which is to establish the price of a hypothetical commercial transaction that occurs between independent parties, as of the valuation date.

Table 34.1. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2022

(in thousands of Ukrainian hryvnias)

Li-ne	Item	Fair value by different valuation techniques as at 31 December 2022			Total fair value	Total carrying amount
		Quoted market price (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using unobserva-ble inputs (Level 3)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	2,409,276	-	2,409,276	2,409,276
2	Loans and advances to banks	-	132,464	-	132,464	132,464
3	Loans and advances to customers	-	-	3,803,076	3,803,076	3,694,851
4	Investments in securities at FVTOCI	-	-	3	3	3
5	Investments in securities at AC	-	3,344,209	-	3,344,209	3,344,209
6	Other financial assets		-	46,341	46,341	46,341
	FINANCIAL LIABILITIES					
7	Due to customers	-	8,223,172	-	8,223,172	8,215,775
8	Debt securities issued by the Bank	-	1	-	1	1
9	Other borrowed funds	-	449,191	-	449,191	449,191
10	Other financial liabilities	-	-	172 151	172,151	172,151

Table 34.2. 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)

Li-ne	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 unobserva-ble 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
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

						(in thousands of Ukrainian hryvnias)
Line	**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**
9	Other borrowed funds		343,999		343,999	343,999
10	Other financial liabilities	-	-	125,833	125,833	125,833

To improve consistency and comparability in fair value measurement and related disclosures, IFRS 13 establishes a fair value hierarchy that divides into three levels the inputs to the valuation techniques used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to inputs that cannot be directly observed (Level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or liability may be assigned to different levels of the fair value hierarchy. In such cases, the fair value estimate is classified in its entirety at the same level of the fair value hierarchy as the lowest level input that is significant to the entire estimate.

The Bank uses the following hierarchy to determine the fair value of financial instruments and disclose information about it in terms of valuation methods:

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 financial assets and financial liabilities with a fixed interest rate that are accounted for at amortized cost is estimated by comparing market interest rates at the time of recognition with current market rates offered for similar financial instruments. The fair value of loans and deposits is calculated by discounting cash flows using discount rates for assets and liabilities with similar credit risk and maturity.

For shares and debt securities that are quoted in an active market, fair value is calculated based on quotes in active markets for identical assets or liabilities. For shares or debt securities in the absence of quotations on an active market, the method of discounting cash flows is used using the yield to maturity for similar financial instruments that are quoted on active financial markets.

Table 34.3. 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**	**Fair value sensitivity to unobservable inputs**
1	**2**	**3**	**4**	**5**	**6**
2022	Loans and advances to customers	3,803,076	Discounting of cash flows	Discount rate	Significant increase of discount rate results in lower values of fair value
2021	Loans and advances to customers	4,869,998	Discounting of cash flows	Discount rate	Significant increase of discount rate results in lower values of fair value
2021	Investments in securities	443,469	Discounting of cash flows	Discount rate	Significant increase of discount rate results in lower values of fair value

Note 35. Presentation of financial instruments by measurement categories

Table 35.1. Financial assets by measurement categories as at 31 December 2022

(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	2,409,276	-	2,409,276
2	Loans and advances to banks	132,464	-	132,464
3	Loans and advances to customers:	3,694,851	-	3,694,851
3.1	corporate loans	2,595,787	-	2,595,787
3.2	mortgages of individuals	882,366	-	882,366
3.3	retail loans	388	-	388
3.4	other loans to individuals	544,395	-	544,395
3.5	other loans granted to individuals	11	-	11
3.6	provision for loan impairment	(328,096)	-	(328,096)
4	Investments in securities	3,344,209	3	3,344,212
4.1	Investments in securities at AC	3,344,209	-	3,344,209
4.2	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:	46,341	-	46,341
5.1	accounts receivable from transactions with customers	5,513	-	5,513
5.2	amounts due on accrued income from cash and settlement services and other accrued income	2,409	-	2,409
5.3	accounts receivable on credit and debit card transactions	44,032	-	44,032
5.4	other assets	49	-	49
5.5	provision for impairment	(5,662)	-	(5,662)
6	**Total financial assets**	**9,627,141**	**3**	**9,627,144**

Table 35.2. 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**

Note 36. Related-party transactions

The methods of valuation of assets and liabilities used in the recognition of transactions with related parties do not differ from those used for transactions with other persons.
Agreements concluded with persons related to the Bank do not provide for more favorable terms than agreements concluded with other persons.

Table 36.1. Balances on related-party transactions as at 31 December 2022

(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	-	-	-	-	-	-	868,405	-	on demand	13,664	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	10	-	on demand	-	-	-
3	Other financial assets	20	-	2 - 31 days	-	-	-	-	-	-	-	-	-
4	Other financial liabilities	2,874	-	on demand - less than 31 days	-	-	-	1,136	-	on demand	-	-	-
5	Other non-financial liabilities	-	-	-	-	-	-	44,123		on demand	-	-	-
	Key management personnel												
6	Loans and advances to customers	209	12%	2 days – 5 years	-	-	-	-	-	-	-	-	-
7	Loan loss provisions	3	-	more than 5 years	-	-	-	-	-	-	-	-	-
8	Due to customers	2,324	0 – 5.5%	on demand - less than 92 days	1,461	0.01%	on demand	496	0.01%	on demand -	109	-	on demand
9	Other financial liabilities	7,783	-	on demand - 4 years	-	-	-	-	-	-	-	-	-
10	Other non-financial liabilities	1,053	-	on demand	-	-	-	-	-	-	-	-	-
	Other related parties												
11	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	986	-	on demand
12	Other non-financial liabilities	-	-	-	-	-	-	42	-	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 36.2. Income and expenses on related-party transactions as at 31 December 2022 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	518	62	-
2	Interest expenses	-	(93)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	2	(3)	-
4	Net profit from foreign exchange	54	-	-
5	Net gain/(loss) from foreign currency translation	172,359	(397)	68
6	Fee and commission income	249	25	-
7	Fee and commission expenses	(1,585)	-	(6)
8	Employee benefits expense	-	(20,245)	-
9	Other administrative and operating expenses	(45,092)	(5,056)	(2,011)

Table 36.3. Loans granted to and repaid by related parties during 2022

(in thousands of Ukrainian hryvnias)

Line	Item	Key management personnel
1	**2**	**3**
1	Loans granted to related parties	-
2	Loans repaid by related parties	11

Table 36.4. Other rights and obligations on related-party transactions as at 31 December 2022

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	**2**	**3**	**4**
1	Guarantees received	153,571	-

Table 36.5. 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												
8	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												
13	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	1,972	-	on demand
14	Other non-financial liabilities	-	-	-	-	-	-	104	-	on demand	-	-	-

Table 36.6. 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 36.7. 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 36.8. 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 36.9. Remuneration to key management personnel

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**expenses for 2022**	**accrued liabilities as at 31/12/2022**	**expenses for 2021**	**accrued liabilities as at 31/12/2021**
1	**2**	**3**	**4**	**5**	**6**
1	Current employee benefits	20,245	1,049	25,045	1,153

The shareholder of "PRAVEX BANK" JSC is an Italian group of companies – Intesa Sanpaolo Group.

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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 68 to 164 of the Bank's Annual Report for the year 2022 and comprise the statement of financial position as at 31 December 2022 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 2022 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.

Material uncertainty related to going concern

We draw attention to Notes 2 and 3 in the financial statements, which indicate that the Bank's operations have been negatively affected by the Russian Federation's military invasion of Ukraine. The Bank incurred a net loss of UAH 415,206 thousand during the year ended 31 December 2022. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was 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 this matter. 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.	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.

Building a better working world

Key audit matter	How our audit addressed the key audit matter
Information on expected credit loss and risk management policies is included in the Notes 4, 8 and 32 in the financial statements.	Also, we analysed the Bank's information about expected credit loss on loans and advances to customers included in the notes 4, 8 and 32 in the financial statements.

Other information included in the Management report and the Bank's Annual Information of the Issuer of Securities for 2022

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. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is two years.

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 24 March 2023 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.

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 36 to the Bank's financial statements.

- As at 31 December 2022, 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.

- 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.

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

- 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-2022-00131 dated 31 October 2022. The audit was conducted in the period from 31 October 2022 to 12 April 2023.

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

12 April 2023

Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, which is maintained by the Audit Public Oversight Body, registration number: 3516

MANAGEMENT REPORT

“PRAVEX BANK” JSC

as at 31 December 2022 and for the year then ended on this date

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Information about the Bank and strategic development plans

“PRAVEX BANK” JSC (hereinafter - the Bank) - a universal financial organization that provides a full range of banking services throughout Ukraine. Thanks to a well-developed network, “PRAVEX BANK” JSC is represented in all corners of our country. Combined with a flawless long-term 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 JSC 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 plans for 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 incom from the use of own and borrowed funds and the development of its activities.

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:

- 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's activities are carried out in Ukraine, whose economy belongs to the category of developing countries. The political and economic situation in Ukraine over the past year is unstable, it is characterized by the characteristics of a developing market. As a result, doing business in the country is associated with risks that are not typical for other countries.

At the end of February, Russia started a full-scale war with Ukraine, which is accompanied by active hostilities in many regions of the country. As a result of the war, the assets of many enterprises were physically destroyed, supply chains and production processes were disrupted, the transport infrastructure that ensured the even distribution of supply across regions was destroyed, and business costs increased. At the same time, the country faced significant population losses and a significant increase in forced migration. During the period of martial law, the Government and the NBU adopted the following measures to minimize the level of inflation:

- temporary fixation of the exchange rate of the hryvnia, which will restrain the probable deterioration of expectations and increase in the price of imported goods;
- fixing prices for housing and communal services;
- revised NBU discount rate; reduction of taxes, including indirect taxation of imports;
- administrative regulation of prices for a number of food products and fuel.

Fixing the exchange rate and maintaining administrative restrictions on currency transactions will remain an important prerequisite for maintaining macroeconomic stability in Ukraine.

In the conditions of martial law, the banking system remained stable, banks continue to work without interruption, have sufficient capital reserves and continue to lend. At the same time, banks managed to withstand the onslaught of numerous cyberattacks, which have significantly increased since February. To save databases, banks were allowed to move them to cloud storage in Europe, the USA and Canada.

Depositors' trust in banks was preserved. The increase in the volume of funds in the accounts of the population was primarily due to funds on demand, while term deposits are decreasing.

Despite the war and constant rocket fire, business and population payments were made without interruption. The list of branches that work even in the absence of electricity and communication for a long time has been determined. At the same time, in order to establish uninterrupted operations and reduce the impact of operational risks, banks incurred significant additional costs to ensure the full functioning of their branches.

During the war, state programs play a key role in supporting lending.

In June, the NBU sharply increased the discount rate from 10% to 25% to ensure the attractiveness of hryvnia deposits, which prompted banks to raise rates on hryvnia deposits.

During the reporting period, the Ukrainian domestic government bonds market operated in a limited mode. Until August, the circulation of purely "military" bonds was allowed, which were placed for the purpose of supporting the state budget and the Armed Forces of Ukraine during the period of martial law. The Ministry of Finance shifted the focus of maturities to shorter terms - initially up to 1 year, later offered bonds with a longer term to maturity. Since August, the bond market has started working normally and is gaining attractiveness among all segments of investors.

Since the beginning of 2022, international rating agencies have lowered the long-term default rating of the issuer of Ukraine in foreign currency in connection with the start of the war with Russia, referring to the Russian military intervention in Ukraine, which continues to create significant risks for the country's economic growth, financial stability, foreign position, and public finances, namely:

- Fitch Ratings lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B" to "CC";
- Standart and Pools lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B" to "CCC+-";
- Moodys lowered the long-term default rating of the issuer of Ukraine in foreign currency from level "B3" to "Caa3".

Rating agencies claim that there are increased risks regarding the servicing of Ukraine's public debt due to the invasion of Russia, as well as a longer duration of active hostilities. All these factors increase the probability of restructuring the public debt.

The Bank was forced to ensure uninterrupted operations in wartime conditions, and direct efforts to maintain the status of a reliable and solvent bank, and took the following measures:

- focused on liquidity management;
- actively worked in the direction of attracting clients' funds in hryvnias and maintaining a stable resource base;
- optimized the cost of attracting and placing funds in foreign currency;
- placed free funds in NBU certificates of deposit in order to avoid liquidity risks and at the same time ensure stable risk-free interest income;
- actively worked in the direction of reducing and optimizing operational and administrative costs, including through constant negotiations with suppliers to maintain the cost of services at the current level, despite the significant increase in inflation and devaluation of the hryvnia;
- carried out work on information protection, ensuring smooth operation of the bank and formation of backup databases, a Cloud data storage in Europe was created, appropriate channels of communication, maintenance and support were set up;
- worked on simplifying and optimizing business processes, ensuring the functioning of critical business processes;
- ensured the operation of the regional network;
- carried out measures to support business in conditions of reduced business activity.

Business processes of the Bank under martial law: simplification, optimization and development. Ensuring the functioning of critical business processes

In order to ensure a prompt response to external circumstances and to make effective decisions regarding the continuous operation of the Bank's processes and a client-oriented approach, in particular during the period of martial law, the Bank's collegial bodies (the Board and its Committees) make operational decisions aimed at simplifying/optimizing the Bank's processes with the implementation of enhanced control of such decisions with the help of additional reporting, etc. Examples of such optimization carried out in 2022 include, in particular, but not exclusively:

- simplifying the work of authorized collegial bodies of the Bank with the organization, if necessary, of absentee work and voting;
- use of electronic document flow, in particular, signing of minutes of meetings of collegial bodies of the Bank with electronic signatures of authorized persons, etc.;
- ensuring the possibility of operation of some branches even in the absence of external power supply and communication;
- organization of customer service of the bank without being tied to the "native" branch and with a reduction in the use of paper document circulation;
- organization of the possibility of signing credit and deposit agreements for legal entities in remote mode with the help of EDS;
- implementation of a new process - remote identification/verification of the client and remote opening of card accounts using modern identification methods (liveness detection method) for individuals;
- active work of the bank with the introduction of a new process - remote identification/verification of the client using modern methods of identification (liveness detection method) for clients of legal entities;
- cancellation of autolongation of the bank deposit agreement;
- free payment of utility services;
- currency transfer between accounts of the same client.

At the same time, after a period when many innovative projects were suspended due to the pandemic, in 2022 the Bank returned to supporting their growth, which is due on the one hand to a large number of regulatory requirements during martial law, as well as the implementation of projects aimed at improving digital banking, new channels attraction and customer service in special conditions. In terms of optimization and development of business processes, the main directions of the Bank's work in 2022 were:

- reduction of the volume of manual operations, reduction of operational risks and execution time, optimization and automation of back-office processes (optimization of processing of payments transferred to corporate cards; integration with the Portmone system; implementation of control over operations carried out by the back-office, etc.);
- optimization, modification and development of new functionality related to Internet banking systems (PRAVEX ONLINE for individuals and PRAVEX BIZ for legal entities):
- opening of current accounts for entrepreneurs, report on closed deposits online through the Internet banking system, transfers from current accounts to a card online, transfers from corporate cards to current accounts, sending clients offers on credit restructuring, storing applications for cancellation of deposit extension , the possibility of receiving and processing a salary file with a new structure from the Internet banking system, etc.;

- changes and developments related to the mandatory requirements of martial law, the National Bank of Ukraine, the Pension Fund, legislation and requirements of the parent company (introduction of a new payment document for operations, introduction of a new specification for the bank's interaction with the Bank ID system of the NBU, transition of the Pension Fund to a new data exchange format – API, etc.);
- modification of services/products provided to clients (improvement of the registration process, Bank ID, new deposit products, integration with the single state service provision portal "Diya", etc.);
- change of corporate products in accordance with the mandatory requirements of the NBU and other state bodies;
- modification and development of software related to the requirements of anti-money laundering legislation, including mandatory restrictions related to martial law and the implementation of the law on payment services, etc.;
- bringing all processes of the Bank into compliance with the requirements of the National Bank of Ukraine and other state bodies and reducing the risk of non-compliance by implementing additional control measures.

Ensuring the activities of the regional network

Ensuring the activities of the Bank's regional network was carried out in the following directions:

supporting employees and ensuring their safety:

- employee safety is defined as a key factor when making all management decisions;
- organized the work and safety of Bank employees during air raids;
- logistic tasks are solved - transportation of network employees to workplaces;

organization of branch network work:

- a crisis headquarters of the Bank was created from representatives of the Management Board and key heads of departments in order to solve problems and respond to the situation very quickly;
- instant communication via messengers is organized for prompt analysis of the situation and decision-making;
- daily and hourly monitoring of the security situation in each city/region is carried out and decisions are made regarding the opening of branches and the possibility of customer service;
- main and reserve teams of branch employees were formed to ensure continuous customer service;
- timely reinforcement of branch cash desks with cash, optimization of cash desk limits;
- the safety of departments, employees and preservation of valuables is ensured;
- generators and portable electricity storage devices were purchased for the constant supply of electricity to the Bank's premises and branches, and a supply of necessary consumables for their proper functioning (including fuel and lubricants) was provided;
- installation of autonomous security alarm systems was carried out in some departments to ensure constant security.

Business support in conditions of reduced business activity

At the same time, in the conditions of martial law, the Bank takes measures to support customers 24/7:

- communication with clients is carried out 24/7 to solve all client requests - thanks to this, it was possible to avoid panic among clients, as well as to actually avoid the outflow of funds from client accounts;
- uninterrupted functioning of remote customer service systems of the Bank is ensured (Client bank, ONLINE PRAVEX, Call center);
- uninterrupted customer service is organized in branches of safer regions (the principle of any branch banking – the client receives absolutely complete services in any branch of the network);
- ensured operation of the Bank's ATM network and their timely reinforcement;
- individual commissions for using products and services in Ukraine and abroad (cash withdrawals, account top-ups, etc.) have been temporarily canceled or reduced, utility services are paid for free;
- new remote and free channels of loan repayment and account top-up have been created;
- introduced credit holidays for clients, new types of loan restructuring and repayment of loans through the mobile application, canceled the autolongation of the bank deposit agreement;
- currency transfer between the accounts of the same client was introduced, the validity period of payment cards was extended, digitization of basic services and services: opening accounts and cards, including the eSupport card, opening and closing deposits, issuing virtual cards;
- new services were introduced: attracting new customers through the mobile application, free top-up of cards in partner networks of cash in kiosks, issuing cash from cards at store cash registers;
- joined the state program "State Guarantees", which provides for the provision of portfolio guarantees for partial coverage of risks on loans of small and medium-sized business clients to facilitate their access to financing in wartime conditions.

Although the management staff believes that it is taking appropriate measures to support the stable and continuous operational activities of the Bank, which are necessary under the existing circumstances, namely, the further escalation of the war, the significant devaluation of the national currency, the increase in the level of inflation, ensuring the operation of the Bank taking into account regulatory changes, may cause negative impact on the Bank's performance and financial condition, the nature and consequences of which cannot be determined at the moment.

According to the results of operations in 2022, the Bank received a loss in the amount of UAH 415,206 thousand, which is 56% more than in 2021 (UAH 266,249 thousand). The Bank suffered a loss mainly due to incurring higher costs for the formation of reserves, which was associated with the consequences of the war, which directly affected the deterioration of the solvency of customers and the growth of administrative costs, which is due to the increase in the inflation rate, the significant devaluation of the hryvnia, the incurring of additional unforeseen costs related to war and ensuring the continuous operation of the Bank, which was partially compensated by higher operating income. The increase in operating income was achieved due to a significant increase in the profitability of the portfolio of deposit certificates of the NBU, which was due to the increase in the regulator's discount rate (from 10% to 25%), while the average volume of the portfolio remained at the same level. Also, the trading income increased significantly due to the higher margin and volume of currency purchase/sale, and with this, the Bank was able to fully compensate for the drop in commission income from the decrease in customer activity and the suspension of business development.

The total assets of the Bank in 2022 compared to 2021 increased by 9% and amounted to UAH 10,216 million. This growth was due to the increase in the volume of funds raised by both physical and legal clients, as well as the revaluation of balances due to the devaluation of the official exchange rate of the UAH against the USD by 25%.

The following changes occurred in the Bank`s of balance sheet:

- increase in the volume of clients' deposit portfolio due to the need to attract resources to ensure a stable resource base;
- reduction of the portfolio of securities, with a simultaneous increase in the volume of standard instruments of the NBU for regulation of banks' liquidity (certificates of deposit and refinancing operations with the NBU);
- reducing the loan portfolio of clients due to:
  - ✓ a complete stop of lending in the retail segment and limited lending in the corporate segment within the framework of existing open lines;
  - ✓ repayment of the current loan portfolio by clients;
- an increase in the amount of overdue credit due to the deterioration of the solvency of customers affected by the war.

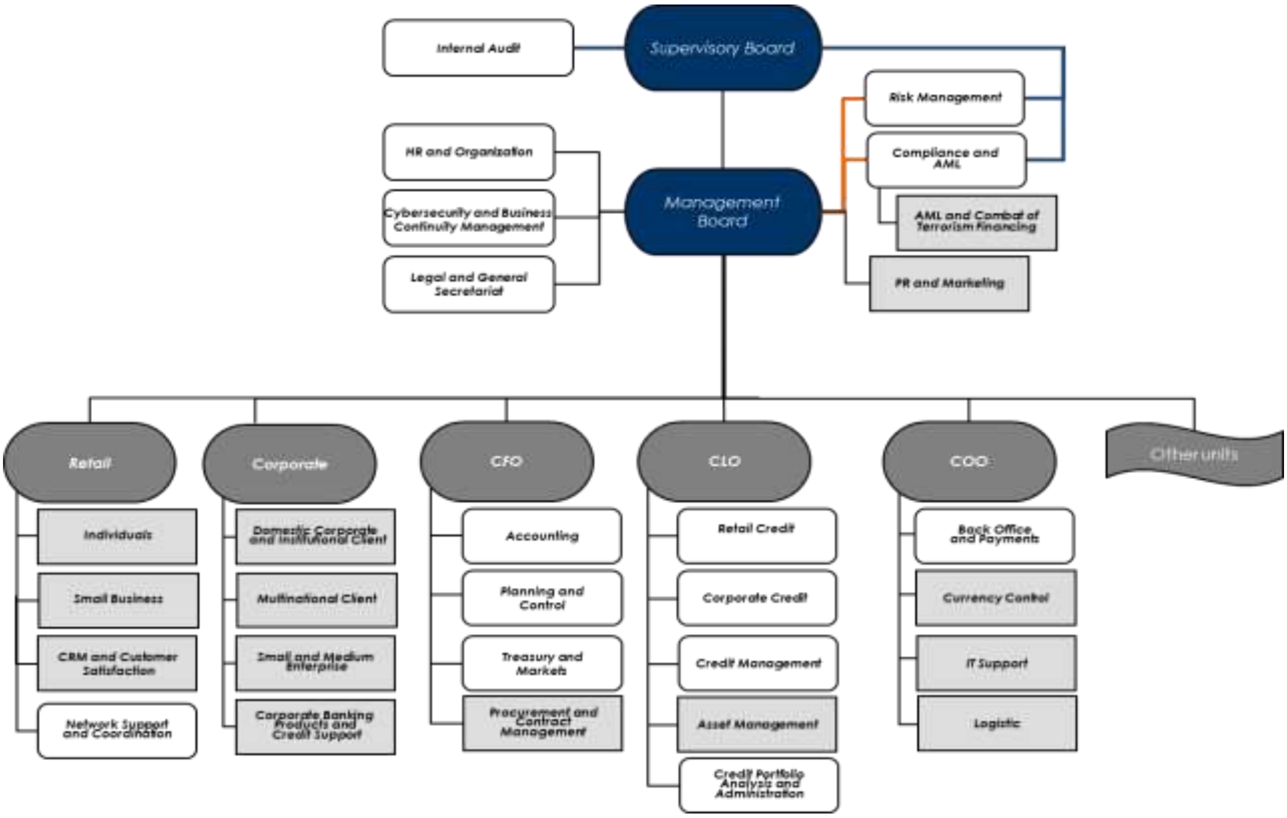
Regarding non-financial indicators of the Bank's activity, it should be noted that during the reporting year the number of working ATMs decreased to 96, of which 58 were replaced by new ATMs. During the year, the network of the Bank's branches decreased by 2 branches, which were suspended, and at the end of the year it amounted to 43 branches.

In general, despite the difficult operating conditions and constant challenges during 2022, the Bank was able to ensure compliance with a sufficient level of liquidity and solvency.

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, 2022 includes 43 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 2017 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;
- carrying out professional activities on the capital markets.

During 2022, 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;
- 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 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”, as well as under the state guarantee program;
- start working with international institutions in the field of financing trade operations and risk-sharing agreements;
- 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.

For retail business:

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

For Corporate Business:

- lending for small and medium-sized businesses under the state program "State Guarantees" with partial coverage of portfolio risks by the state;
- products of trade finance for legal entities (discounting and confirmation of export letters of credit), at the launch stage;
- remote opening of a deposit through a client-bank using a qualified electronic signature;

- possibility of remote signing of credit agreements on the EDOCS platform using a qualified electronic signature.

The Bank treats its customers responsibly, maintains a constant dialogue with them and maintains excellent business relationships.

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

During 2022, 29 complaints were received and resolved, the majority of complaints are related to unauthorized debiting of funds from card accounts, complicated access to rented safes in connection with military actions in Ukraine. All complaints were considered, analyzed by the Bank and answered within the time limits established by the law.

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:

- 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, 2022, 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 2022, the Bank complied with the regulatory capital adequacy ratio (H2) with a rate of 13.87% (31 December 2021: 19.82%) and the fixed capital adequacy ratio (H3) with a rate of 12.70%. (December 31, 2021: 18.82%);
- the amount of regulatory capital as of December 31, 2022, is UAH 678,658 thousand (December 31, 2021: UAH 1,135,866 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.

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 profitability 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. The organization of work on the implementation and implementation of the method of an integrated approach in the management of the Bank's assets and liabilities is handled by a special organizational form of the Bank's management - the Assets and Liabilities Management Committee.

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 “PRAVEX BANK” JSC.

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, 2022, the Bank had 732 employees. The Bank recognizes employees as a valuable resource and attracts leading specialists in the Ukrainian market.

The Bank provides all employees with equal opportunities in the framework of evaluation, motivation and career growth, involvement in new initiatives, participation in new projects, etc. to achieve strategically defined goals, solve planned tasks, as well as social and personal problems of employees.

When hiring, documents submitted by candidates are checked, their professional level, work experience, professional competence, and business reputation are studied. The final decision to fill a vacant position is made based on the results of checks and an objective study of the documents of several applicants by conducting a comparative assessment of them based on knowledge, skills, professionalism and experience in relation to the role in which the recruitment is being carried out.

When hiring managers or when transferring employees to management positions, the Bank uses many years of experience in the Ukrainian market, the experience of the Group's advanced European HR practices and acts exclusively in accordance with the current legislation of Ukraine.

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

In the event that an employee of the Bank, regardless of the position held by him, violates the established internal labor regulations, the requirements of the internal regulatory documents of the Bank, regulatory and by-laws of state authorities (including anti-corruption legislation), an appropriate official investigation is conducted, the conclusions of which, together with other materials regarding the violation, are considered in accordance with the Bank's current Procedure for the Application of Disciplinary Sanctions, according to which disciplinary sanctions or influence measures are applied. The Chairman of the Management Board/Deputy Chairman of the Management Board of the Bank makes the final decision whether the application of one or another measure of disciplinary sanction is justified.

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 the norms of anti-corruption legislation.

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

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

All management personnel are in labor relations with the Bank on the basis of concluded labor contracts.

During 2022, remuneration was paid to the Bank's management staff in accordance with the terms of the concluded contracts, for their participation in the meetings of the Board and Committees of the Board during the year, as well as the performance of functional duties in accordance with the assigned powers in accordance with the Bank's internal documents and contracts.

The amount of the monthly remuneration of each employee from among the management personnel is established by the employment contract and is paid twice a month according to the time worked.

The management personnel remuneration system is part of the PRAVEX BANK JSC remuneration policy, approved by the Decision of the Supervisory Board dated 22.12.2022 No. 18_22, which was developed and implemented on the basis of the Group Policy of the Bank's sole shareholder - Intesa Sao Paolo. During the reporting period, there were no deviations from the approved terms of remuneration of management personnel or any violations of the terms of the Policy of remuneration and incentives of PRAVEX BANK JSC.

The Bank makes efforts to develop its intellectual capital, investing resources in training, development and motivation of employees. The main carrier of intellectual capital is a person. Management of intellectual capital contributes to the creation of excellent opportunities in the definition and implementation of successful future strategies and has a tangible positive effect on the professional and career growth of employees already today. In today's difficult conditions, the Bank and the Intesa Sanpaolo Group (hereinafter - the Group) make a lot of efforts for the comprehensive development of employees by organizing internal corporate trainings, online conferences and seminars.

An integral component of the Bank's personnel policy and tactics is a set of principles, models and methods for creating, supporting and developing highly qualified and highly productive personnel capable of quickly responding to the realities and trends of the modern market, as well as collectively implementing the Bank's strategic plans.

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 divisions, form a sense of community and an effective team, and inspire how to stay motivated, help others and withstand today's psychological stress.

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.

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 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.

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 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 2022, no control measures were applied to the Bank by the supervisory authorities.

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 (hereinafter - the NBU), requirements of the Regulations on the Organisation of Risk Management System in Ukrainian Banks and Banking Groups of Ukraine approved by the Resolution of the Board of the NBU dated 11 June 2018 No. 64, Regulation on Identification of the Bank’s Related Parties, approved by the Resolution of the Board of the NBU dated 12 May 2015 No. 315, Articles of Association and internal documents of the Bank.

The principles for identifying individuals and legal entities as related to the Bank, transactions with related-party of the Bank, assessment procedures, proposals 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 on transactions with related parties and associated entities of “PRAVEX BANK” JSC approved by the decision of the Supervisory Board (Minutes No. 2_22 dated 4 February 2022).

Transactions with related-parties 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, other internal documents. The Shareholder of the Bank shall protect the interests of the Bank and its depositors, actively exercising its powers at the General Meeting of Shareholders – the supreme governing body of the Bank. Shareholder 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 the interests of the investors, depositors, creditors, Bank employees and other persons concerned.

Transactions with related-parties conducted during 2022 had no material effect on the Bank's financial results.

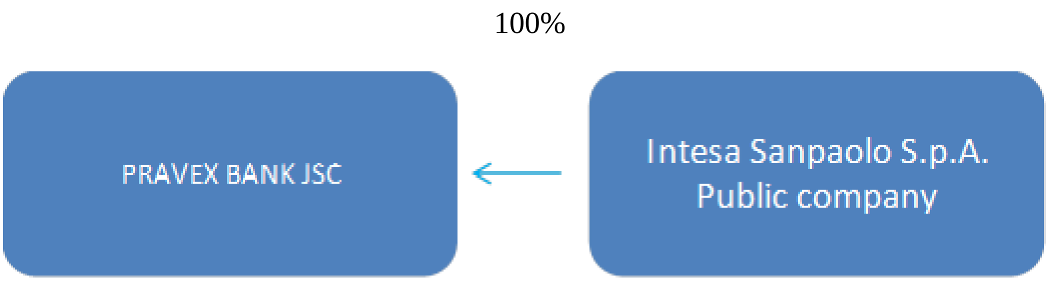
Corporate governance report

Organisation of corporate governance

"PRAVEX BANK" JSC 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 2022 is presented below:



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

In 2022, there were no changes in the ownership structure of the Bank. The Bank has a status of a bank with foreign capital.

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" and based on the licenses and permits obtained from the National Bank of Ukraine, the National Securities and Stock Market Commission.

The Bank understands that effective corporate governance is essential to achieving its objectives and is constantly updating its corporate governance structure based on 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 war and development and safeguard of the Ukrainian banking system. Despite the war, 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 during 2022 was 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 did not apply in its activity during 2022 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 Principles (Code) during the reporting period.

In 2022, the Bank has fully complied with the Corporate Governance Principles.

In order to implement the best corporate governance practices, build an effective internal control system and an adequate risk management system, achieve its goals, the Bank shall implement internal documents regulating the Bank's activity that define the interaction between structural units and officials of the Bank. 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.

No violations of the internal rules for 2022 by the members of the Bank's Supervisory Board were revealed.

Possible prospects of further development of the issuer.

Despite of the ongoing war in Ukraine, the Bank will continue to conduct banking activity and develop in this area. The development of the Bank as the issuer is based on the ethical principles of doing business, defined in the Principles (Code) of Corporate Ethics. The nearest perspective of the Issuer's further development is to ensure effective operations under the condition of strengthening positions on the interbank market and the private banking market, improving the corporate governance system, ensuring an effective risk management system and internal control, increasing the level of technological support and business continuity with improving the information security system. Prospects of the issuer's further development depend on the macroeconomic situation in the country, the level of escalation/de-escalation of the war, legislative changes, it relates to ensuring the adoption and implementation of adequate management decisions in accordance with changes in the external environment. Prospects for the further development of the Bank are determined by the level of effectiveness of financial policy implementation, improvement of personnel support, expansion of the range 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” (in the version effective during 2022) (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 solely. 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.

There were 2 meetings of the General Meeting of the Shareholders held in 2022, one annual and one extraordinary.

In 2022, Shareholder Resolutions were made in respect of the following matters:

- approval of the annual financial statements of “PRAVEX BANK” JSC for 2021 and independent Auditor`s report of “Ernst and Young Audit Services” LLC, to the annual financial statements of the Bank for 2021;
- approval of the annual financial statements of “PRAVEX BANK” JSC as at December 31, 2021 and for the year that ended on the mentioned date that consists of the following:
    - Statement of financial position as of December 31, 2021,
    - Income or Loss Statement for 2021,
    - Accumulated Income Statement for 2021,
    - Flow of Funds Report for the year ended December 31, 2021,
    - Changes in Owner’s Equity Report for the year ended December 31, 2021,
    - Remarks to financial statements as of December 31, 2021 and for the year that ended on this date.

- approval the independent Auditor`s report issued by “Ernst and Young Audit Services” LLC, on the audit of the financial statements of the Bank for 2021;
- approval distribution of income and loss of “PRAVEX BANK” JSC;
- approval of the Management Report of “PRAVEX BANK” JSC as at December 31, 2021 and for the year that ended on this date;
- approval of the Supervisory Board Report for 2021;
- approval of the Report on Remuneration of the Members of the Supervisory Board for 2021;
- approval of the amendments to the Articles of Association of the Bank by restating it in a new version;
- approval of the amendments to the Regulation on the Supervisory Board of the Bank by restating it in a new version;
- approval of the updated Remuneration and Incentive Policies of the Bank.

Extraordinary meetings of the General Meeting of the Shareholders were initiated by the Shareholder of the Bank. There are no restrictions on participation and voting rights.

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, as well as specified in the Regulation on the Supervisory Board.

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

The competence of the Supervisory Board is stated in the Articles Association of the Bank and include inter alia:

- approval and control over the implementation of the Bank' strategy, business plan, recovery plans for the Bank's activities, the Bank's financing in crisis situations, the Bank's business continuity according to the key activities determined by the General Meeting of Shareholders;
- ensuring the organization of effective corporate governance in accordance with the principles (code) of corporate governance approved by the General Meeting of Shareholders of the Bank;
- approval and control over the Bank's budget fulfilment, including the financing of risk management, compliance and internal audit functions;
- ensuring the functioning and control over the effectiveness of the Bank's comprehensive and adequate internal control system, including the risk management system, internal audit;
- approval and control over compliance with risk management strategies and policies, risk appetite statement, list of limits (thresholds) on the Bank's risks;
- approval and control over observance of the code of conduct (ethics), policy of prevention, detection and management of conflicts of interest in the Bank;
- approval of the organizational structure of the Bank, including the structure of risk management, compliance, internal audit functions;
- appointment and termination of powers of the Chairperson, Deputy Chairperson and members of the Management Board of the Bank, appointment and dismissal of the Chief Risk Officer (CRO), Chief Compliance Officer (CCO), the head of internal audit function of the Bank;
- conducting an annual assessment of the effectiveness of the Management Board of the Bank in general and each member of the Management Board of the Bank in particular, risk management, compliance, internal audit functions, assessment of compliance of the Management Board of the Bank, Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Head of internal audit function of qualification requirements, assessment of compliance of the Management Board's collective suitability with the size of the Bank, complexity, volume, types, nature of the Bank's transactions, organizational structure and risk profile of the Bank taking into account the specialties of the Bank's activities as systemically important (if such status is available), and / or the activities of the banking group, which includes the Bank, as well as taking measures to improve the mechanisms of activities

of the Management Board of the Bank and risk management, compliance, internal audit functions based on the results of such assessment;

- approval and control over the observance of the procedure for carrying out transactions with the related parties to the Bank, which, in particular, should contain requirements for detection and control over transactions with the related parties to the Bank;
- annual assessment of the effectiveness of the Supervisory Board of the Bank in general and each member of the Supervisory Board of the Bank in particular, committees of the Supervisory Board of the Bank, assessment of compliance of the Supervisory Board's collective suitability with the size of the Bank, complexity, volume, types, nature of the Bank's transactions, organizational structure and risk profile of the Bank taking into account the specialties of the Bank's activities as systemically important (if such status is available), and / or the activities of the banking group, which includes the Bank, as well as taking measures to improve the mechanisms of activities of the Supervisory Board of the Bank based on the results of such assessment;
- decision-making on holding of annual General Meeting of Shareholders and Extraordinary General Meeting of Shareholders according to the Articles of Associations and in cases, stipulated by the legislation, formation of a temporary counting commission in the event of convening a General Meeting of Shareholders by the Supervisory Board; approval of the form and text of a ballot paper, election of the registration commission (except in cases established by law), approval of the date of formation of the list of shareholders to be notified on the General Meeting of Shareholders and who have the right to participate in the General Meeting of Shareholders in accordance with the law, preparing the agenda of the General Meeting of Shareholders; adoption of the decision on date of the General Meeting of Shareholders and on including proposals to the agenda, except calling by the shareholders of the extraordinary General Meeting of Shareholders;
- decision-making on granting consent to a significant transaction if the market value of the property or services that are its subject (i) amounts to 0 to 25 percent of the value of assets according to the latest annual financial statements of the Bank; (ii) equals to or greater than 25 per cent but less than 50 per cent of the value of the Bank's assets according to the latest annual financial statements, if the composition of the Supervisory Board of the Bank meets the requirements of law on the number of independent members; decision-making on granting consent to the transaction with interest in the cases provided by the law on joint-stock companies.

As of 01.01.2022 the Supervisory Board of the Bank was represented by six 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

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

During 2022 the following changes in the composition of the Supervisory Board took place:

Effective 25.07.2022 the powers of member of the Supervisory Board Mr. Andrea Fazzolari were terminated at his own request in accordance with the written notice of the Bank on 11.07.2022. As of the date of termination of powers of member of the Supervisory Board no person was elected to replace Mr. Andrea Fazzolari on his position.

In view of the above, the personal composition of the Supervisory Board of the Bank as of 31.12.2022 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. 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 agreements concluded with them.

In 2022 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 were 18 meetings of the Supervisory Board convened during 2022, 11 of which with personal presence of Board members by means of videoconference and 7 – 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 items considered by the Supervisory Board during the year there were the following, in particular, but not limited to:

Approval of the audited annual financial statements of the Bank as of 31.12.2021 in accordance with IFRS, acknowledgement of the Independent Auditors Report as of 31.12.2021, approval of the Bank's budget for 2022, approval of Annual Audit Plan and budget of the Internal Audit Department for 2022, half-year reports on corporate and retail business results, acknowledgement of monthly updating on financial statements of the Bank and approval of ISP Group reporting package of the Bank for consolidation purposes, quarterly risk management reports containing information on credit risk, market risk and operational risk, approval of the updated Problem Asset Management Strategy and Operational Plan 2022-2025, overview of the banking system and FX Market work from February 24, 2022 under the Martial Law in Ukraine, new economic sanctions against russia and Belarus adopted by EU, USA and UK in response to russia invasion of Ukraine and related operating instructions for the Bank's units, approval of the updated organizational chart, appointment of heads of the Bank's structural units, quarterly AML and compliance reports, approval of the reports of the Supervisory and Management Boards of the Bank for 2021, approval of the reports on remuneration of members of the Supervisory and Management Boards of the Bank for 2021, quarterly corporate secretary reports etc.

According to the resolution of the sole Shareholder of the Bank, 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, for any reason, who receives remuneration, the Bank shall pay remuneration in the amount proportional to the time worked, within one month from the date of termination of powers.

In 2022 remuneration to the members of the Supervisory Board of the Bank was paid on December 15th, 2022 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 the Bank in 2022 amounted to UAH 2,335 thousand (excluding SSC) gross (UAH 1,880 thousand net).

The remuneration accrued to members of the Supervisory Board was paid in non-cash form by transferring it to their own accounts.

During 2022 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 performed 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 31.12.2022 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 has 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 at the meeting of the Committee.

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 2022 the Audit Committee had 7 meetings 5 of which were held with personal presence of Committee members by means of videoconference and 2 – 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 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 31.12.2022 was as follows:

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

Members of the Risk Management Committee:

- Mr. Corrado Casalino (independent)
- Mr. Lorenzo Fossi.

During 2022 the composition of the Committee was changed, in particular, on 23.09.2022 Mr. Lorenzo Fossi was appointed to the composition of the Committee.

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 at the meeting of the Committee.

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 2022 the Risk Management Committee had 8 meetings 4 of which were held with personal presence of Committee members by means of videoconference and 4 – 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, 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, 2022, 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. 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, CCO-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 2022, there were no changes in the personal composition of the Management Board of the Bank.

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). If

necessary, the Bank's Management Board may also be organized via written voting (poll) in the manner prescribed by the Regulation on the Management Board of the Bank.
In 2022, 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 2022, 38 meetings of the Bank's Management Board were held (24 of them with the personal presence (including by remote participation via videoconference) and 14 – via written voting).
The competence of the Management Board is stated in the Bank's Articles of Association, other internal documents of the Bank.

There are the following committees of the Management Board, as of 31.12.2022:
- 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 was 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.21_21 dated 19.08.2022, Agenda item 11. The activity of the Tender Committee was 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.

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;
- validate the action plans related to potentially problem assets under Proactive Credit Management;
- evaluate regularly the effectiveness of actions and measures adopted to manage specific potentially problem assets;
- 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 2022, the Bank's Credit 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 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);
- Action Head of Corporate Division – Mr. Strygin A. (with the voting right within his competence).

During 2022, the following changes took place in the personal composition of the Credit Committee: on 05.01.2022, the committee was joined by Acting Head of Corporate Division - Mr. Strygin A.

In 2022, the Credit Committee held meetings in accordance with the frequency requirements established by internal regulations.

There were 44 meetings of the Credit Committee in 2022, out of which 32 – by personal presence via videoconference and 12 – by written voiten). The Committee passed decisions within its powers, as described above. The Committee inter alia has passed decisions regarding corporate and retail lending, changes in lending conditions, limits on interbank transactions, and restriction conditions for retail 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 scope of competence 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, 2022, 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. Strygin A. (Acting Head starting from 05.10.2022);
- 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, CRO-Head of Risk Management Department starting from 21.12.2022);
- 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 2022, the Credit Risk Governance Committee held meetings in accordance with the frequency requirements established by internal regulations.

There were 13 meetings of the Credit Risk Governance Committee in 2022, out of which 10 – by personal presence via videoconference and 3 – via written voting).

The Committee passed resolutions within its powers, as described above. In addition but not limited to the Committee passed decisions regarding agreeing on credit product / policy parameters, procedures, guidelines, rules related to the lending process / strategies for restructuring of loans, and considering reports from the Risk Management Department, accreditation of appraisal companies, approval of new products / change of conditions for products / reporting for introduced products.

Non-performing Assets Committee (NPAC)

The Problem Assets Committee was established by Decision 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;
- take part in development and implementation of the strategy of problem assets management and operational plan in part of non-performing assets and repossessed property;
- take 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;
- approve decisions on borrowers/counterparties debt settlement in scope of authority, delegated by the Supervisory Board of the Bank;
- approve decisions on repossessed property management, including its sale, in scope of authority, delegated by the Supervisory Board of the Bank;
- approve standardized decisions on non-performing assets;
- take 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;
- make 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;
- take 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;
- take part in development of regulation/procedures/orders/instructions on non-performing assets and repossessed property;
- consider 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 2022, the Non-performing Assets Committee is represented by:

Chairperson: CRO-Head of Risk Management Department – Mr. Nastin S.O.

Members:
- Chairman of the Management Board – Mr. Burani Stefano
- Head of CLO Division – Mr. Leshchenko R.I.;
- Head of Credit Management Department – Mr. Lytvynenko Yurii.

In 2022, the Non-performing Assets Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Non-performing Assets Committee has held 26 meetings in 2022 out of which 25 – by personal presence via videoconference and 1 – by written voting).
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 Company;
- 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 2022, 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 Tresury and Markets Department – Mr. Krasovskyi A.V.;
- Head of Corporate Division – Mr. Strygin A. (Acting Head starting from 05.01.2022);
- 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 2022, 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 19 meetings in 2022 out of which 11 – by personal presence via videoconference and 8 – by written voting).

The Committee passed decisions 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 reference rates, granting of authority to set individual rates/tariffs, interest rates/tariffs review, 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 Decision 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, 2022, 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.;
- Head of COO Division – Mr. Caprioli Giuseppe Dario;
- Head of CFO Division – Ms. Kramarova S.M.;
- CRO-Head of Director of Risk Management Department – Mr. Nastin S.O.

In 2022, 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 2022 out of which 2 – by personal presence via videoconference and 2 – by written voting).

The Committee passed decisions 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, 2022, 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 – Strygin A. (Acting Head starting from 05.01.2022);
- Head of Organization and Project Management Office of HR and Organisation Department – Ms.Nesterenko G.M.

The Change Management Committee has convened 13 meetings in 2022 – 10 by personal presence via videoconference and 3 by written voting.

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, 2022, 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 COO Division – Mr. Caprioli Giuseppe Dario;
- Head of CFO Division – Ms. Kramarova S.M.;
- Head of Retail Division – Mr. Babaiev S.Z.;
- Head of Corporate Division – Mr. Strygin A. (Acting Head starting from 05.01.2022);
- 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).

The Information Security Management Committee has held 2 meetings in 2022: 1 meeting by written voting in order to approve the Policy of cryptographic protection of information of “PRAVEX BANK” JSC and 1 meeting via videoconference to acknowledge IT Security and Business Continuity Management Report as of September 2022 and the Bank's processes issue and approve the regulatory IT Security and Business Continuity documents.

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 2022, the Committee is represented by:

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

Members:

- Chairman of the Board – Mr. Burani Stefano;
- 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. Strygin A. (Acting Head starting from 05.01.2022);
- Head of Retail Division – Mr. Babaiev S.Z.;
- 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);
- Head of Cybersecurity and Business Continuity Management Department – Mr. Sirakov O.M.

During 2022 the following changes were in the composition of the CGC: on 19.08.2022 Head of Cybersecurity and Business Continuity Management Department Mr. Sirakov O.M. was added as its member.

There were no meetings of the Crisis Governance Committee in 2022.

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 2022, 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. Baranovska H.S.

The Tender Committee has convened 14 meetings in 2022, out of which 8 – by personal presence by means of videoconference and 6 – by written voting.

The Tender Committee passed decisions 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 authorise	Total transactional	Value of the issuer's assets under the	Ratio of total transaction threshold to	Scope	Date of publication on the public	Link to the corporate website with information

		d body passing the resolutio n	threshold (UAH '000)	latest annual financial statements (UAH '000)	the value of the issuer's assets under the latest annual financial statements (per cent)		database of the Committee or though other parties that publish information on behalf of stock market participants	about the resolution on the preliminary consent to conduct significant transactions
1	2	3	4	5	6	7	8	9
1.	01.07.2022	Supervisory Board	4 700 000	9 412 122	49,94	Conclusion of general agreements with the NBU	06.07.2022	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
2.	01.07.2022	Supervisory Board	3 350 000	9 412 122	35,6	Purchase of depositary certificates of the National Bank of Ukraine	06.07.2022	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
3.	28.11.2022	Supervisory Board	1 138 800	9 412 122	12,099	Approval of the limits to Intesa Sanpaolo S.P.A. on conducting interbank transactions	29.11.2022	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi

Internal control system

The purpose of the integrated internal control system is to build the principles of the functioning of the internal control system of PRAVEX BANK JSC. This is achieved by establishing appropriate rules and defining the responsibilities of bodies and control units that contribute in various ways to the proper functioning of the internal control system, defining methods of coordination and information flows that help ensure the integrity of the system.

The internal control system is organized on the basis of the "Regulations on the Comprehensive Internal Control System" of "PRAVEX BANK" JSC, which was approved by the decision of the Supervisory Board of the Bank dated 29.06.2021 No. 9_21.11.

The Intesa Sanpaolo Group considers the Internal Control System to be of strategic importance, since it represents:

- a core element of the overall governance system of the Intesa Sanpaolo Group, ensuring that the company's activities are in line with its strategies and policies and consistent with the standards of a sound and prudent management;
- a core source of information for the Corporate Bodies, enabling them to have a full overview of the current scenario, to ensure an effective safeguard against business risks and their interrelations, direct changes in strategic guidelines and company policies and adapt its organizational structure in a consistent way;
- an important way to safeguard compliance with prudential supervisory standards and foster the development of a strong risk culture.

The control culture does not only involve the Control Functions, but also the entire corporate organization (corporate bodies, other Functions with control duties and business Functions at every hierarchical level) in developing and applying methods for identifying, measuring, communicating and managing risks.

The Bank adopt(s) an Integrated Internal Control System based on three levels, according to the indications of Intesa Sanpaolo Parent Company.

Description of the main characteristics of the Bank's internal control and risk management systems

This model provides for the following types of control:

Level I: line controls that are designed to ensure that operations are carried out correctly (e.g. hierarchical, systematic and sample internal controls) and that, insofar as possible, are embedded into IT procedures. These controls are performed by the operational and business organizational units themselves (the "Level I Functions") including through units that are exclusively dedicated to control tasks and that report to the Responsible Head, or are performed as part of back-office operations. The business and support organizational structures have the primary responsibility for the risk management process; during the course of their daily operations, these units – in cooperation with the level II Functions and, where applicable, the Organization Function – must identify, measure or assess, monitor, control, mitigate and report the risks arising from ordinary business operations, in accordance with the risk management process. They must comply with the operating limits allocated coherently with the risk objectives and the procedures of the risk management process.

Level II: controls on risks and compliance that aim to ensure, inter alia:

- correct implementation of the risk management process;
- respect of the operating limits assigned to the various Functions;
- compliance of operations with laws, regulations and internal policies, rules and procedures;
- the Banks' management assurance that the introduced 1st level controls and risk management measures have been developed and function properly.

The Functions responsible for these controls are independent from the business and operating Functions and contribute to defining the risk governance policies and the risk management process. Level II includes the following Bank's organizational structures, where established (the "Level II Control Functions"):

- Compliance and AML Department;
- Risk Management Department.

Level III: Internal Audit controls, designed to identify violations of procedures and regulations and to periodically assess the comprehensiveness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organizational structure of the other components of the Internal Control System (1st and

2nd level controls) and the IT system (ICT Audit), at pre-established intervals based on the nature and severity of the risks cluster.

Within the Bank, Internal Audit activities are performed by the Internal Audit Department. Also, Intesa Sanpaolo Parent Company's Internal Audit Head Office Department may perform direct or cross-audit activities.

The organizational structure of "PRAVEX BANK" JSC Risk Management System of was approved by the decision of the Supervisory Board of "PRAVEX BANK" JSC dated 29.06.2021 No. 9_21.10 and as of 31.12.2021 is presented as follows:

1st line of defense - business and operational units

The 2nd line of defense is the risk management department, which reports to the Chief Risk Manager – Head of the risk management department, and the compliance and anti-money laundering department, which reports to the chief compliance manager – Head of compliance and anti-money laundering department.

The 3rd line of defense is the Internal Audit Department.

The Internal Audit Department is subordinated and accountable to the Supervisory Board.

The Head of the Internal Audit Department subordinates and reports to the Supervisory Board.

The Internal Audit Department, as an entity of the internal control system, carries out independent activities to assess the effectiveness of corporate governance in the bank, risk management system, internal control system in terms of operational and financial activities of the Bank, IT systems and compliance with external and internal regulations. Audits are performed in accordance with the annual audit plan, that is based on the risk-centred approach, and requirements of the National Bank of Ukraine, as well as in accordance with proposals and tasks received from the Bank's Supervisory Board. Audits are approved by the Supervisory Board of the Bank.

Audit findings and key risks are reported to the Supervisory Board for review.

According to the audits conducted during 2022, the Internal Audit Department provided recommendations for improving the internal controls in the following areas:

- Liquidity Risk Management;
- implementation of the Sanctions Framework against Russia & Belarus;
- identification of the credit risk related to the war by Russia against Ukraine;
- Corporate Governance in the part of Remuneration System;
- management of "cyber security" within the framework of cooperation with IT third parties, which provide services for outsourcing of certain processes (IT services);
- secure of remote working (Cyber risk);
- safekeeping of valuables in the Head Office vault;
- organization of branches` work during martial law (compliance with new NBU requirements);
- organization of branches` work regarding cash and settlement service, customer account maintenance, compliance with the requirements of regulatory documents on financial monitoring

during banking operations, currency exchange operations and operations with bank metals, non-trading currency operations, protection of branch premises and personnel management.

The audit can also be carried out by the audit department of the Intesa Sanpaolo Parent Company.

The Bank implements internal control procedures, which include, among other things:

- reporting to the Bank's Supervisory Board and the Bank's Management Board. The Bank's managers, in accordance with the division of functional responsibilities, constantly receive and analyze reports on the fulfillment of the set goals in order to determine the compliance of the actual financial results with the planned indicators;
- multi-level control over the Bank's activities. Control of heads of structural subdivisions over employees' performance of their functional duties; control of the Bank's Management Board over the work (activity) of the Bank's structural subdivisions; control of the Bank's Supervisory Board over the activities of the Bank's Management Board;
- a list of measures (actions) of the Bank to ensure control over the availability of the Bank's assets, including periodic inventory, double control, limited access to assets;
- a list of measures (actions) of the Bank to ensure access control to electronic banking systems, databases and software, which includes the development of procedures and the procedure for granting appropriate permits;
- a list of measures (actions) of the Bank to ensure control over access to information containing banking secrets, including the development of procedures and procedures for providing access;
- a list of measures (actions) of the Bank to ensure control over the access of Bank employees to the Bank's operations, which includes the development of procedures and procedures for providing access;
- display of all transactions of the Bank in the accounting on the day of their execution or the next working day, if the transaction was executed after the end of the Bank's operating day (time) or on weekends or holidays;
- a list of measures (actions) of the Bank to ensure control over the registration of accounting documents by employees authorized to do so by the head of the Bank or another authorized person;
- verification of compliance with established limits and restrictions;
- checking the completeness, reliability and timeliness of financial, statistical, management, tax and other reporting;
- constant assessment of the adequacy and effectiveness of the internal control system.

Risk management

The scale and protracted nature of the war in Ukraine will further increase the risks for the global economy. Global inflation exacerbated by the war and the corresponding tightening of monetary policy are slowing down economies and threatening Ukraine's key partners with recession. However, financial, military and humanitarian aid to Ukraine is only increasing, as is the sanctions pressure on Russia.

The Ukrainian economy has been slowly recovering after a precipitous decline in the first half of 2022 because of large-scale Russian aggression. The loss of human capital and the destruction of infrastructure, in particular energy, as a result of further Russian terrorist attacks and hostilities led to a deep decline in the economy in 2022 and will restrain its recovery in the next one. A high level of risks and uncertainty remains, which complicates the work of the financial sector, but macro-financial stability is supported by significant international financial assistance.

Like the central banks of most developing markets, the NBU responded to all challenges and increased the discount rate. Due to the deep recession and the slow recovery of the economy, the demand for credit resources is depressed. Banks limit lending to their existing customers or participation in government support programs. Access to cheap credit resources through the state support program "Affordable loans 5-7-9%" will continue. However, after the spring surge in agricultural lending, activity under this program decreased. Under conditions of high risks, the support program "Affordable loans 5-7-9%" will remain the key driver of hryvnia corporate lending. In general, since February, banks have recorded losses in the amount of 9% of working loans. The protracted nature of the war and the large-scale destruction of the energy infrastructure increase credit risks in the corporate segment. Therefore, the total losses of banks from credit risk will increase in the future. The retail loan portfolio continues to shrink due to credit risk losses and slow new lending. Credit demand, which is mainly determined by the level of consumption, will remain low for a long time. In addition to a lack of solvent demand, lending is held back by lax banking standards, which have been tightened in wartime conditions.

The capital reserve formed by banks before the war allowed them to absorb credit losses on retail loans, primarily on unsecured loans. From 2021, the NBU obliged financial institutions to maintain a capital reserve for this portfolio, gradually increasing the risk weights to 150%. In July, the NBU reduced the risk weights to 100%, which partially freed up banks' capital. So it allows you to absorb credit losses. Loan portfolio losses are also compensated by interest income on the working part of the portfolio. In addition, a working retail portfolio helps generate commission income. The fundamental drivers of the further deterioration of portfolio quality remain: real incomes of a large part of the population are falling, and unemployment remains high. In connection with the massive shelling of the energy infrastructure and the slowdown of economic activity in the winter, the situation may worsen, and the losses of the banks will increase.

The banking sector continues to receive significant inflows of funds as a result of government payments. However, funding is distributed unevenly, inflows of hryvnia funds of the population are concentrated in state banks. The vast majority of banks meet liquidity standards with a significant margin, and the share of highly liquid assets on the balance sheets of financial institutions is growing. However, most of the funds coming to banks remain in current accounts, so the term structure of funding is deteriorating. The accumulated surplus of liquidity in the banking sector and the weak reaction of deposit rates to the change in the discount rate force the NBU to start binding liquidity. From January 2023, banks' required reserves in current hryvnia and foreign currency amounts will increase by 5 percent. p. up to 5% and 15%, respectively. As a result of this decision, financial institutions will be obliged to keep more funds on account with the NBU to fulfill the requirement for reserves. It will be possible to partially meet the requirements for mandatory reserves by keeping domestic government bonds from the specified list on the balance sheet. Increasing reserve requirements will not remove all excess liquidity from the market, but will require significantly more effort from banks to manage funding. In particular, they will have more incentives to encourage the inflow of term funds by raising deposit rates. The National Bank of Ukraine plans to continue to increase reserve requirements.

Despite the war, the banking sector remains operationally efficient and continues to generate net profit. Net interest income increased significantly, largely due to liquidity inflows into the banking sector and growth in income-generating assets. Commission income of banks is gradually recovering after a sharp fall in the spring and in September reached last year's figures. Additional income was provided by revaluation of indexed securities and income from foreign currency trading. High revenues and almost unchanged costs enabled financial institutions to achieve record operating efficiency. Significant operating income enables most banks to cover losses from credit risk. Banks continue to reflect the incurred and expected losses from the deterioration of the quality of the loan portfolio.

Banks have already suffered significant losses from the realization of risks as a result of the war, primarily due to the loss of quality of the loan portfolio. However, capital buffers and operational efficiency enable financial institutions to maintain capital buffers above minimum requirements. At the same time, threats of further loss of capital by a number of banks are increasing, some of them are already violating minimum capital requirements. The number of violators may continue to grow. A reliable assessment of the capital will make it possible to develop measures for its restoration in a timely manner. Therefore, the NBU plans to carry out a sustainability assessment next year.

Banks were able to adapt to the conditions of the long war: the work of branches is restored, financial institutions are slowly optimizing the network and personnel costs. The risks of blackouts have become a new challenge for banks, but a project is already being implemented to ensure continuous provision of services even in the absence of a long-term power supply.

One of the Bank's main risks in 2022 is the external political risk associated with Russia's attack on the territory of Ukraine. The main risk factors: loss of human resources and material values due to waging a full-scale war; the availability of loans and the placement of their collateral in regions where active hostilities are taking place.

Credit risk. Risk factor: the presence of overdue debt and accrued outstanding income. Impact of the Bank: in 2022, a grace period for loans was introduced for clients; work with clients continues to gradually repay problematic debts, which reduces the level of existing risk and negative impact on the Bank's regulations; restrained and selective lending to the corporate segment is carried out with strict credit risk control.

Market risk. Currency risk. Risk factor: dependence on fluctuations in the exchange rate of foreign currencies. The Bank's influence: control over the open currency position, achieving the maximum possible size of the "closed" position, taking into account the peculiarities of calculations implemented by the NBU during 2022. The temporary fixation of the hryvnia exchange rate, which is supposed to restrain the likely deterioration of expectations and the increase in the price of imported goods (back in March, the fixation remained only for the exchange rate of the hryvnia to the US dollar, and other currencies changed according to the official exchange rate of the hryvnia to foreign currencies) also had an impact on currency risk Bank and economic regulations of the NBU, especially during a sharp increase in the exchange rate 21/07/2022.

Interest rate risk. Risk factor: dependence on fluctuating rates on financial instruments. The Bank's influence: a balanced policy to achieve a balance between assets and liabilities.

Liquidity risk. Risk factors: certain inconsistencies between the terms of attracting funds from clients and the placement of the Bank's resources, which is due to the market situation and the structure of the Bank's balance sheet, the instability of the resource base of the banking system. The Bank's influence: control of liquidity gaps, attracting funds from clients.

Operational risk. Risk factors: the Bank's main risk is external risk due to Russia's military invasion of Ukraine. The next factors are personnel, systems and information technology and process execution. The Bank's influence: the Bank cannot influence external factors, but whenever possible, it takes measures to minimize losses from the loss of human resources and material values. For other operational risk factors, the Bank acts in accordance with the Business Continuity Plan (BCP).

The Bank considers risk factors for other types of risks to be insignificant.

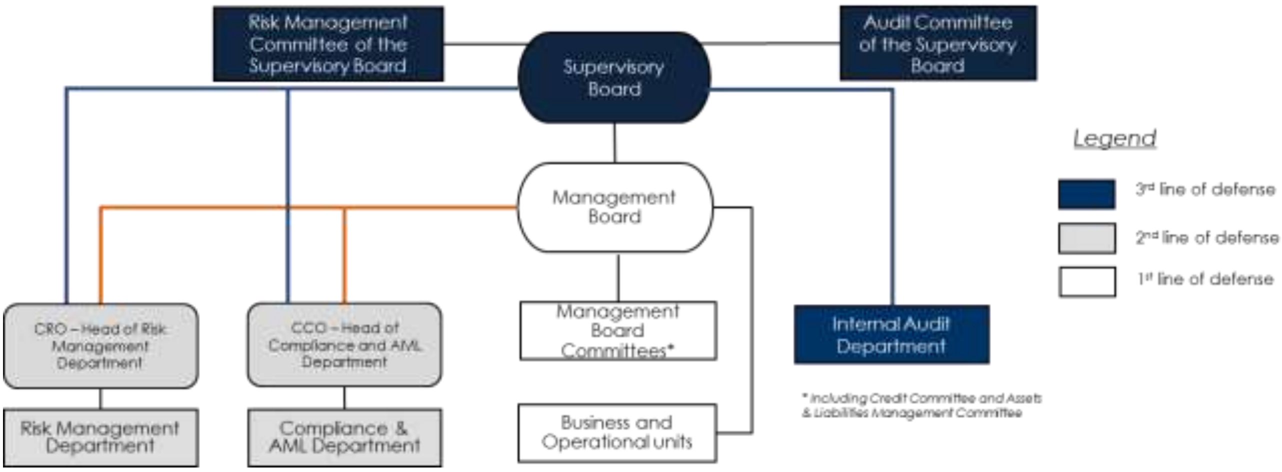
Adherence to the minimum capital requirements is not enough to ensure the stability of the banking system, although capital risk remains moderate primarily due to the substantial safety margin accumulated before the war. Most banks still have a capital buffer above the minimum requirements. However, this excess buffer will probably disappear. Some financial institutions are already violating minimum capital adequacy requirements. The NBU does not apply influence measures for violations of regulatory capital requirements, if they are caused by the consequences of war. The regime of regulatory easing will be maintained for a long time. So financial institutions with viable business models and the ability to generate operating income will have enough time to recapitalize if needed. In the future, the requirements for banks will be transformed in view of the changes to the banking legislation.

Taking into account the above risk factors, the Bank has strengthened the risk management system, ensuring proper identification, objective assessment, continuous analysis, monitoring, control and reporting to ensure awareness of all interested parties and maintaining continuous communication to respond as quickly as possible to emerging risks.

The economic standards of liquidity and capital, as well as the limits of the open currency position, calculated in accordance with the normative acts of the NBU, are fulfilled by the Bank as of 31.12.2022. At the same time, the registered excess of the credit risk standard (H7) is associated with a significant level of devaluation of the hryvnia by 25% in July 2022 and the creation of additional reserves, in connection with the deterioration of the quality of the credit portfolio, which is directly related with the consequences of war. The specified information was submitted to the NBU. During 2022, the NBU did not apply measures of influence to the Bank for exceeding the standard (H7).

The Bank's activities as a whole 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.

According to NBU Resolution No. 23 dated 25.02.2022, which describes the Rules for Banks in connection with the introduction of martial law in Ukraine, banks must carry out risk stress testing starting from the next quarter after the termination or cancellation of martial law.

The main categories of risk inherent in the Bank's business are credit risk, liquidity risk, market risk, bank book interest rate risk, currency risk (a component of market risk), operational risk and reputational 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 (UAH, USD, EUR);
- 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.

The Department of Treasury and Stock Markets of the CFO Division, on the basis of the report on liquidity gaps, makes forecasts on the basis of data received from structural divisions about future active and passive operations.

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 the liquidity ratios of the NBU, such as 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 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 operation 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 operation 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

Reputational risk - the probability of losses or additional losses or failure to receive planned revenues as a result of an unfavorable perception of the Bank's image by clients, counterparties, shareholders, supervisory and control bodies. It is also defined as reputational risk - an existing or potential risk of a decrease in profit or capital, which arises due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and supervisory authorities.

The main goal of reputation risk management is to limit or minimize the risk to income and capital that occurs or may occur due to an unfavorable perception of the Bank's image by customers, contractors, shareholders (interested persons) or supervisory authorities.
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.
The Department of Public Relations and Marketing provides reputation management in mass media (hereinafter referred to as mass media):

- minimization / neutralization of negative information in the media about the Bank and management;
- improving the positive image of the Bank/management by creating a positive profile in the media;
- increasing trust in the Bank / management on the part of clients by forming a positive profile in the mass media.

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. In 2022 performance and availability of IT systems and data are adversely impacted by martial law situation. The ICT availability and continuity risk is mitigated by the following approaches: identification the critical ICT processes and the relevant supporting ICT systems according to critical business processes and appropriate contingency planning to enable the availability, continuity, and recovery of critical ICT systems and services; ICT system backup and recovery procedures for critical software and data; documented incident management and proper escalation process etc.

Information risk (a component of operational risk) is the probability of losses or additional losses, or failure to receive planned revenues as a result of external or internal events, changes in the business environment and/or information technologies, or inadequate or erroneous internal processes regarding:

- functioning of information systems and other information resources of the Bank and their management (risk of information and communication technologies);
- preserving the confidentiality, integrity and availability of the Bank's information (risk of information security).

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, 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 Strategy (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. Risk Management Department are independent of business leaders, which is confirmed by subordination to the Bank's Supervisory Board.

The Credit Committee is the permanent decision-making committee of the Bank regarding performing counterparties, including potentially problem assets, whose main responsibility consist in adoption 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.

The Credit Risk Management 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.

Non-Performing Assets Committee is the pemanent decision-making committee of the Bank regarding non-performing assets and repossessed property, whose main responsibility consist in taking the necessary measures in order to prevent 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 Assets and Liabilities Management Committee 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 Operational Risk Management Committee is a permanent decision-making committee and advisory committee whose mission is to ensure a qualified and competent management of operational risk issues (ICT / cyber risk inclusive), in accordance with applicable laws, Group regulations 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 "PRAVEX BANK" JSC in the audit of financial statements as at 31 December 2022 and for the year then ended.

The key personnel of the Audit Company involved in the audit of the financial statements of 2022 are presented as follows:

Yulia Studynska (partner)

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

Final provisions

In 2022, 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 2022, the Bank conducted no transactions with derivative securities as an issuer.

Authorized for issue and signed by

Chairman of the Management Board

JSC "PRAVEX BANK" **Stefano Burani**

Chief Accountant

JSC "PRAVEX BANK" **H.S. Baranovska**

Date: **28 March 2023**