PJSC “BANK VOSTOK”

Management Report, Financial Statements, and Independent Auditor’s Report for the Year Ended 31 December 2021

PJSC “BANK VOSTOK”

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and Management Board of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK":

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the financial statements requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "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

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Notes 2, 4 and 34 to the financial statements, since 24 February 2022 the impact of the ongoing military actions in Ukraine, the magnitude of further developments, the timing of cessation of those actions and final resolution are unpredictable and adversely affect the operations of the Bank. These conditions, along with other matters as set forth in Note 4, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as going concern. Management's plans concerning these matters are also discussed in Note 4 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowances for expected credit losses ("ECLs") on loans and advances to customers assessed on an individual basis	
Allowances for expected credit losses are calculated on a collective basis for loans and advances to customers with similar risk characteristics and on an individual basis for significant loans and advances to customers. To assess allowances for expected credit losses on loans and advances to customers assessed on an individual basis, the Bank's management applies models and techniques that use both external and internal inputs, as well as comprehensive and subjective judgments of the Bank's management. Key areas of significant judgments and estimates applied by management in determining the expected future cash flows based on the scenarios related to the loans, the allowance for which is assessed on an individual basis, are judgments and estimates in respect of projected revenues of borrowers, discount periods, and probable scenarios for estimated future cash flows. Assessment of allowance for expected credit losses on loans and advances to customers assessed on an individual basis was determined to be a key audit matter due to the subjective character of certain judgments and estimates used by the Bank's management and a significant balance of corresponding loans and advances to customers. Details on the use of judgments, estimates, and assumptions are provided in Notes 4, 5 and 28.	Our audit procedures included the following: • Updated understanding of the Bank's processes and control procedures for determination and assessment of scenarios related to estimated cash flows and probabilities attached to them in respect of loans assessed on an individual basis. • We independently assessed the appropriateness of methodologies applied in calculating allowances for expected credit losses in terms of their compliance with accounting standards and market practices. We assessed the appropriateness of management's judgments, in particular regarding projected revenues of borrowers, discount period, and probable scenarios for estimated future cash flows based on the judgments used, and performed alternative calculations of discounted cash flows taking into account appropriate internal and external historical information and forecast expectations. We compared the obtained results against calculations of management. We also checked the completeness and accuracy of relevant disclosures to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report and securities issuer's annual information, which also includes corporate governance report, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and Law on accounting and financial reporting, 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.

Those charged with governance are 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

We have been appointed as an auditor of the Bank by the Supervisory Board's meeting on 15 September 2021. In view of the previous renewals and reappointments, we conducted audit from 30 October 2017 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the Audit Committee.

We confirm that the prohibited non-audit services referred to ISA or requirements of Article 6, paragraph 4 of Law of Ukraine "On Audit of Financial Statements and Audit Activities" were not provided and that the audit engagement partner and audit firm remains independent of the Bank in conducting the audit.

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for preparation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with amendments) ("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, the management report has been prepared in accordance with the requirements of the Article IV of the Instruction No. 373 and the information in the management report is consistent with the financial statements.
- We are required to report if we have identified material misstatements in the management report in light of our knowledge and understanding of the Bank obtained during our audit of the Bank's financial statements. We have nothing to report in this respect.

Pursuant to the "Requirements to the information applicable to the audit or review of the financial statements prepared by the capital market and organized commodity market participants supervised by the National Securities and Stock Market Commission (the "NSSMC")" No. 555 dated 25 July 2021 (the "NSSMC Requirements"), we report the followings:

- Information on the full legal name of the Bank, ultimate controlling party and the structure of the ownership is disclosed in Note 1 to the financial statements.

- As at 31 December 2021 the Bank was not a controlling party or participant of a non-banking financial group.
- The Bank is a public interest entity in accordance with the Law on accounting and financial reporting.
- As at 31 December 2021 the Bank has no subsidiaries.
- 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" dated 1 October 2015.
- The creation of the Revision Commission is not stipulated by the Bank's Charter, and, accordingly, the report on the results of revision of financial and economic activity for the 2021 financial year was not prepared by such commission.
- Limited Liability Company "Deloitte & Touche Ukrainian Services Company" (USREOU code 25642478, https://www2.deloitte.com/ua/uk.html) have audited the Bank's financial statements according to the agreement No. Aud/2021/79264 dated 30 September 2021. The audit was conducted in the period from 30 September 2021 to the date of this report.

Basic Information about Audit Firm

Name: Limited Liability Company "Deloitte & Touche Ukrainian Services Company".

Address of registration and location of the audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine.

"Limited Liability Company "Deloitte & Touche Ukrainian Services Company" was enrolled to Sections of "Audit Entities", "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements", and "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities" of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under # 1973."

LLC "Deloitte & Touche USC"

28 October 2022

Certified Auditor Natalia Samoilova

Registration Number in the Register of Auditors and Auditing Entities 102404

LLC "Deloitte & Touche Ukrainian Services Company"
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

PJSC "BANK VOSTOK"

Statement of financial position
as at 31 December 2021
(in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	7	3,214,337	3,274,234
Loans and advances to banks	8	368,094	184,581
Loans and advances to customers	9	8,874,102	7,021,936
Investments in securities	10	6,310,164	5,269,798
Derivative financial assets	31	19,106	-
Deferred tax assets	27	2,577	2,750
Intangible assets other than goodwill	11	40,984	32,533
Property, plant and equipment	11	90,936	106,215
Right-of-use assets	12	83,169	61,314
Other financial assets	13	424,712	277,614
Other non-financial assets	13	58,176	26,295
TOTAL ASSETS		**19,486,357**	**16,257,270**
LIABILITIES			
Due to other banks	14	44,796	79,986
Customer accounts	15	17,383,980	14,490,307
Lease liabilities	12	77,720	59,947
Derivative financial liabilities	31	-	6,967
Other borrowed funds	17	309,211	372,653
Provisions for loan commitments and financial guarantee contracts	30	1,336	1,311
Provisions for employee benefits		35,120	29,535
Other financial liabilities	16	69,613	43,550
Other non-financial liabilities	16	20,009	17,626
Current tax liabilities	27	19,383	11,872
Subordinated debt	18	206,792	111,740
TOTAL LIABILITIES		**18,167,960**	**15,225,494**
EQUITY			
Issued capital	20	983,950	841,955
Result from transactions with the shareholder		10,051	(383)
Retained earnings		286,985	150,691
Reserve and other funds of a bank	20	38,996	31,501
Other reserves		(1,585)	8,012
TOTAL EQUITY		**1,318,397**	**1,031,776**
TOTAL LIABILITIES AND EQUITY		**19,486,357**	**16,257,270**

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА м. ДНІПРО

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

Statement of comprehensive income, profit or loss for the year ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2021	For 12 months of 2020
Interest income	21	1,371,900	1,149,144
Interest expense	21	(428,851)	(475,825)
Net interest income (Net interest expense)		**943,049**	**673,319**
Commission income	22	977,663	732,266
Commission expenses	22	(380,285)	(288,862)
Net increase (decrease) from financial instruments at fair value through profit or loss		11,365	2,291
Net increase (decrease) from operations with debt financial instruments at fair value through other comprehensive income		1,017	4,039
Gain (loss) arising from derecognition of financial assets measured at amortised cost		3,935	15,364
Net increase (decrease) from trading in foreign currencies		48,406	49,357
Net increase (decrease) from foreign exchange translation		(21,939)	18,502
Other income		58	19
Other expense		(1,141)	(18)
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	23	(19,085)	(26,394)
Gains (losses) on initial recognition of financial assets at interest rates above or below market		13,710	34,156
Gains (losses) on initial recognition of financial liabilities at interest rates above or below market		6,621	5,772
Other operating income (expense)	24	8,579	(18,637)
Employee benefits expense	25	(558,505)	(471,736)
Depreciation and amortisation expense	11, 12	(136,490)	(121,862)
Other administrative and operational expenses	26	(547,859)	(424,791)
Profit (loss) before tax		**349,099**	**182,785**
Tax expense (income)	27	(63,315)	(33,295)
PROFIT (LOSS)		**285,784**	**149,490**
Other comprehensive income/(loss):			
Components of other comprehensive income that will be reclassified to profit or loss, before tax			
Gains (losses) on financial assets measured at fair value through other comprehensive income, before tax		(9,888)	(2,750)
Income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income		291	495
Total other comprehensive income		**(9,597)**	**(2,255)**
TOTAL COMPREHENSIVE INCOME		**276,187**	**147,235**
Ordinary shares		3,073,500	3,073,500
Basic earnings per share (UAH per share)		92.98	48.64

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА М. ДНІПРО

Siuskova, Olena Petrivna,
Chief Accountant

Statement of changes in equity
for the year ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

	Notes	Issued capital	Result from transactions with the shareholder	Reserve and other funds of a bank	Other reserves	Retained earnings	Equity
Previous reporting period							
Equity at the beginning of the period		**639,104**	**(278)**	**23,218**	**10,267**	**213,355**	**885,666**
Changes in equity							
Comprehensive income							
Profit (loss)		-	-	-	-	149,490	149,490
Other comprehensive income		-	-	-	(2,255)	-	(2,255)
Total comprehensive income		-	-	-	(2,255)	149,490	147,235
Increase (decrease) through other changes, equity		-	(105)	-	-	(1,020)	(1,125)
Distribution of previous years' profit	20	202,851	-	8,283	-	(211,134)	-
Equity at the end of the period		**841,955**	**(383)**	**31,501**	**8,012**	**150,691**	**1,031,776**
Current reporting period							
Equity at the beginning of the period		**841,955**	**(383)**	**31,501**	**8,012**	**150,691**	**1,031,776**
Changes in equity							
Comprehensive income							
Profit (loss)		-	-	-	-	285,784	285,784
Other comprehensive income		-	-	-	(9,597)	-	(9,597)
Total comprehensive income		-	-	-	(9,597)	285,784	276,187
Increase (decrease) through other changes, equity	19	-	10,434	-	-	-	10,434
Distribution of previous years' profit	20	141,995	-	7,495	-	(149,490)	-
Equity at the end of the period		**983,950**	**10,051**	**38,996**	**(1,585)**	**286,985**	**1,318,397**

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К. 26237202 УКРАЇНА м. ДНІПРО

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

Statement of cash flows
for the year ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2021	For 12 months of 2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Interest received		1,373,353	1,147,182
Interest paid		(411,025)	(459,809)
Commission income received		973,200	732,525
Commission expenses paid		(379,857)	(297,234)
Net increase/(decrease) from operations with financial instruments at fair value through profit or loss		(14,708)	9,257
Net increase/(decrease) from operations with foreign currencies		48,406	49,357
Other cash receipts from operating activities		24,173	25,856
Administrative expenses and other paid operating expenses		(545,236)	(416,650)
Payments to and on behalf of employees		(553,090)	(476,744)
Income taxes refund (paid)		(55,628)	(33,281)
Cash flows from (used in) operating activities		**459,588**	**280,459**
Net (increase)/decrease in loans and receivables of banks		(187,616)	281,738
Net (increase)/decrease in loans and advances to customers		(2,055,785)	102,602
Net (increase)/decrease in other financial assets		(157,513)	(37,179)
Net (increase)/decrease in other assets		(31,882)	1,199
Net increase/(decrease) in due to other banks		(27,257)	(196,345)
Net increase/(decrease) in customer accounts		3,173,429	4,678,322
Net increase/(decrease) in other financial liabilities		27,967	(17,373)
Net increase/(decrease) in other liabilities		2,630	1,734
Net cash flows from (used in) operating activities		**1,203,561**	**5,095,157**
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(45,923)	(47,255)
Purchase of intangible assets		(26,384)	(26,952)
Purchase of securities		(94,345,738)	(172,082,510)
Proceeds from sale and repayment of investments in securities		93,233,816	168,460,769
Net cash flows from (used in) investing activities		**(1,184,229)**	**(3,695,948)**

PJSC "BANK VOSTOK"

Statement of cash flows (continued)
for the year ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2021	For 12 months of 2020
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Receipt of subordinated debt	19	105,368	-
Return of other borrowed funds	19	(52,897)	(53,714)
Payments of lease liabilities	19	(60,701)	(47,690)
Payments of other equity instruments		(219)	(105)
Net cash flows from (used in) financing activities		**(8,449)**	**(101,509)**
Effect of exchange rate changes on cash and cash equivalents		**(70,780)**	**271,098**
Net increase (decrease) in cash and cash equivalents		**(59,897)**	**1,568,798**
Cash and cash equivalents at the beginning of the period	**7**	**3,274,234**	**1,705,436**
Cash and cash equivalents at the end of the period	**7**	**3,214,337**	**3,274,234**

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА М. ДНІПРО

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for PUBLIC JOINT STOCK COMPANY “BANK VOSTOK” (hereinafter, the “Bank”).

The Bank was established on 23 April 2002 and registered by the National Bank of Ukraine (hereinafter, the “NBU”) on 17 October 2002 as CJSC “Agrobank”. In December 2006, the Bank became a part of Home Credit Group. On 27 March 2009, the Bank was re-registered as open joint stock company and, on 27 May 2010, as public joint stock company.

On 21 December 2011, 100% of the Bank’s shares were acquired by a group of legal entities and individuals. During 2012, changes in the shareholders’ structure took place. As at 31 December 2021 and 2020, 100% of the Bank’s shares were held by LLC “Vostok Capital”.

Major beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyi, and Ms. L. S. Morokhovska.

The Bank provides banking services to individuals and legal entities, including attracting deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies, and other services. The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate # 157 dated 19 November 2012), which operates under the Law of Ukraine “On Individual Deposit Guarantee System” # 4452-VI dated 23 February 2012. Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case the National Bank of Ukraine takes a decision to include a bank into the insolvent category, and Individual Deposit Guarantee Fund commences a procedure on withdrawing a bank from the market.

As at 31 December 2021 and 2020, the Bank had 38 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions.

The Bank’s registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank’s Head Office units are located at: 1b Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine.

2. Operating environment of the Bank

In 2021, the Ukrainian economy demonstrated growth by about 3.2% of real GDP, which did not compensate the shrinking of the economy in 2020 by 4.4% of real GDP resulting from the outbreak of coronavirus disease (COVID-19) and respective national lockdown initiatives aimed at curbing the spread of COVID-19 pandemic. The inflation rate was at the level of 10.0% (2020: 5.0%), which was the highest indicator since 2017, alongside with a slight devaluation of the national currency (by around 1.2% to USD and 4.9% to EUR comparing to the previous year averages).

2. Operating environment of the Bank (continued)

In 2021, the National Bank of Ukraine (the "NBU") revised the discount rate amount several times. During 2021, the NBU took a decision to increase the discount rate from 6.5% in March to 8.5% in September 2021. In 2022, the NBU revised the discount rate amount twice, in January 2022, it was increased to 10%, and in June – to 25%.

During 2021, Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict in certain parts of Luhanska and Donetska Regions. The situation became worse in late 2021 due to the concentration of the Russian armed forces close to the borders of Ukraine and the threat of further military aggression of Russia against Ukraine.

On 21 February 2022, Russia recognized the occupied territories in Luhanska and Donetska Regions as independent republics and, on 24 February 2022, Russia started its military invasion of Ukraine resulting in a full-scale war across the Ukrainian state. The ongoing military attack has led, and continues to lead, to significant damage to infrastructure, dislocation of the population, and disruption to economic activity in Ukraine. All ports in the Black Sea area stopped working, and exports made via seaports was fully suspended. Transportation of goods inbound and outbound is performed by railway and trucks. Airports, many roads, and bridges are closed, have been damaged or destroyed, further crippling transportation and logistics. The situation remains highly fluid, and further developments are subject to extraordinary uncertainty. The economy of the country has experienced serious consequences. In late April, Ukraine encountered a significant lack of fuel due to the need to create new logistics supply routes from Europe. The Government has introduced a range of emergency measures to stabilize the economy.

On 4 October 2022, the President of the Russian Federation signed laws on the annexation of parts of Luhanska, Donetska, Zaporizka, and Khersonska regions that had been earlier ratified by the country's parliament.

Effective from February 2022, the inflation rate increased in annual terms up to 24% in August because of the disruption of supply chains and production processes, uneven demand, increased business costs, physical destruction of assets of many companies caused by the Russian attack on Ukraine.

From the onset of the invasion, the NBU has introduced a range of temporary protective measures, such as restriction of cross-border payments in foreign currency, fixing the official exchange rate for major currencies (on 21 July 2022, the NBU adjusted the official UAH/USD exchange rate by 25% to UAH 36.5686 per USD 1). From the beginning of the war, the NBU fixed the discount rate at the level of 10% due to the forced administrative restrictions, however, later, in June, it increased it to the level of 25%. The NBU stated it would revert to the traditional format of inflation targeting with a floating exchange rate after the economy and financial system return to their normal operational mode. The Ukrainian Government continues to service external debt obligations, and the banking system remains operational.

2. Operating environment of the Bank (continued)

The Ukrainian Government received financing and donations from international organizations, along with individual countries, and charities to support financial stability, social related payments, and military needs. On 9 March 2022, the International Monetary Fund (the “IMF”) approved an additional financing for Ukraine under an emergency support program known as the Rapid Financing Instrument (“RFI”) in the amount of USD 1.4 billion. During the period from March to August 2022, the European Bank for Reconstruction and Development (the “EBRD”) announced an initial resilience package of EUR 2.7 billion. In the period from March to August 2022, the US Senate provided a final approval for the USD 16.6 billion emergency package of military and humanitarian aid to Ukraine. In May 2022, the USA adopted the Law on Lend-Lease Program for Ukraine and another package of military and humanitarian support for USD 40 billion. On 29 September 2022, the Upper House of the US Congress approved, by the majority of voices, a draft bill on short-term public funding which includes the support to Ukraine in the area of security and economy for the total amount of USD 12 billion.

Effective from March 2022, the Ministry of Finance of Ukraine has been also conducting tenders in respect of sales of military bonds, which allowed to raise over UAH 100 billion as at late June 2022.

During 2022, the Government introduced zero quotas on exports of gold and silver (other than banking metals), buckwheat, table salt, bricks, coal, and fuel oil. Exports of chicken meat, cattle (animals) and cattle meat, eggs, mineral fertilizers, rye, oats, millet, and sugar are subject to licensing. Exports of gas are prohibited.

On 15 March 2022, the Verkhovna Rada of Ukraine introduced some changes to the tax legislation and adopted the Law of Ukraine No. 2120-IX “On Amendments to the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period” (Note 30).

On 23 June 2022, the European Council summit in Brussels decided to provide Ukraine with the candidate status to the European Union. Ukraine is going to become a participant of the EU programs and initiatives opened for candidates.

On 22 July 2022, in Istanbul, the representatives of Ukraine signed an agreement with Turkey and the UNO on de-blocking seaports and restoring exports of grains that had been blocked in the Black Sea ports as a result of the war. A “mirror” agreement with Turkey and the UNO was also signed by Russia. As at early October, the seaports in Odeska region managed to ship 5 million tons of agricultural products.

On 27 September 2022, the Cabinet of Ministers of Ukraine adopted resolutions that will allow Ukraine joining the Conventions on the Procedures of Joint Transit and Simplified Formalities in the Trade of Commodities (so called “customs visa-free regime”) effective from 1 October 2022. The resolutions open the access for the unlimited circle of domestic business representative to authorizations and simplified procedures of joint transit that economic operators possess in 35 member states of the Convention.

(in Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank (continued)

The war between Ukraine and Russia is ongoing, resulting in a significant destruction of property and assets in Ukraine and a significant displacement of people in Ukraine. The consequences of the war are changing day to day and the long-term implications are unclear. Further impact on the Ukrainian economy depends upon the way the Russian military invasion in Ukraine is resolved and upon the success of the Ukrainian Government in realization of new reforms and recovery and transformation strategy for the purpose of obtaining membership in the EU, as well as on cooperation with the international funds.

3. Adoption of new Standards and amendments thereto

New and amended IFRS that are effective for the current year. The following amendments to Standards and Interpretations have been applied by the Bank effective from 1 January 2021, but they have not had any material impact on the Bank's operations and the financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 Interest Rate Benchmark Reform: Phase 2;
- Amendments to IFRS 16 "Leases" – COVID-19 Related Rent Concessions.

The adoption of new Standards and Interpretations has not led to significant changes in the Bank's accounting policies that would have an impact on the reporting data of the current and prior periods.

Standards and Interpretations in issue but not yet effective. The Bank has not applied the following new and revised IFRS that have been in issue but are not yet effective:

Standards/Interpretations	**Effective for the annual accounting periods beginning on or after:**
IFRS 17 "Insurance Contracts"	1 January 2023
Amendments to IFRS 17 "Insurance Contracts"	1 January 2023
Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 "Property, Plant, and Equipment" – Proceeds before the intended use of property, plant, and equipment items	1 January 2022
Amendments to IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets" – Onerous contracts: Cost of fulfilling a contract	1 January 2023
Amendments to IAS 8 Definition of accounting estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of accounting policies"	1 January 2023
Amendments to IAS 1 Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 12 Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IFRS 10 and IAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"	The effective date to be determined

The new Standards listed in the table above are expected to have no material effect on the Bank's operations.

4. Summary of significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the IFRS Interpretations Committee (the "IFRS IC").

Presentation currency. These financial statements are presented in Ukrainian Hryvnias ("UAH") and in thousands, unless otherwise indicated.

Going concern. Management has prepared these financial statements on a going concern basis, which presupposes that the Bank will continue its operations in the foreseeable future. However, on 24 February 2022, Russian forces began a military invasion of Ukraine resulting in a full-scale war across the Ukrainian state, which are described in details in Notes 2 and 34.

In preparing the financial statements for the year ended 31 December 2021, the Bank's management has assessed its ability to continue as a going concern in the foreseeable future, considering the ongoing military actions in the territory of Ukraine that have already caused, and continue to cause, considerable adverse consequences to the country's economy taken as a whole and the Bank's customers.

The Bank's management believes the allowances for expected credit losses to be a key factor of financial pressure on the Bank's financial performance. Upon re-assessment of actual and perspective payment discipline of borrowers, considering the dynamics of their operations during the war, the Bank has estimated a potential deterioration degree of borrowers' performance, potential probabilities of default, and probable changes in the created allowances for expected credit losses. In accordance with the Bank's management's forecasts, losses incurred to create additional allowances for expected credit losses will not lead to violation of the NBU's statutory requirements to capital adequacy. The estimation was made by using the map of military actions as at late August 2022.

The Bank consistently monitors its liquidity position. When managing the liquidity risk in response to the negative liquidity gap in the amount of UAH 1,067,990 thousand (the liquidity gap of up to one year), the Bank assesses the stable balance of customer accounts determined with the help of statistical methods for analyzing historical information about fluctuations of balances on customer accounts. The excess of current financial liabilities over current financial assets does not increase the liquidity risk due to a high degree of stable balances on customer accounts. During the periods ended 31 December 2021 and 2020, minimum balances on customer accounts were estimated to be equal to not less than UAH 13,472,252 thousand and UAH 8,877,065 thousand, respectively. In addition, as at 31 December 2021, investments in securities with maturities of over one year included debt securities issued by domestic and foreign public authorities that were not used to secure the refinancing borrowing from the NBU of the total fair value of UAH 1,018,790 thousand which could be sold by the Bank before their maturities in the emergency situations caused by the market participants in order to cover the liquidity deficit.

4. Summary of significant accounting policies (continued)

In accordance with the current estimation of the operating environment dynamics, the Bank anticipates to retain the balance structure close to the actual one as at the current reporting date, however, total assets and liabilities will decrease as a result of creating additional allowances for expected credit losses and a certain decrease in investments in debt securities issued by the Government of Ukraine and amounts due from customers, as well as stable liquidity cushion, and expects that interest income will increase from investments in securities and additional allowances for expected credit losses will be created which, in general, correspond to the current balance as at 30 September 2022 and performance for the nine months of 2022.

The Bank has accumulated a rather long history of profitable activities and gained a positive experience in avoiding losses during the crisis of 2014-2015 and a successful experience of business transformation and risk management in the course of COVID-19 pandemic. The Bank has technical possibility to maintain its operating activities and render financial services to customers in compliance with the concluded agreements and the effective legislation. The Bank continues to provide financial services to its customers in accordance with the agreements concluded. Based on the analysis of current and forecasted performance indicators and potential expected credit losses caused by military actions, as well as the estimated liquidity position, the Bank's management believes it has all grounds to prepare the financial statements based on the assumption that the Bank will continue as a going concern.

These facts indicate that, taking account of reasonably possible downsides, the Bank has adequate resources to continue in operational existence for the foreseeable future. However, due to the currently unpredictable effects of the ongoing war on the significant assumptions underlying management's forecasts, management concludes that a material uncertainty exists, which may cast a significant doubt about the Bank's ability to continue as a going concern and, therefore, the Bank may be unable to realize its assets and discharge its liabilities in the normal course of business.

Basis of preparation. These financial statements have been prepared on the historical cost basis, except for certain financial instruments. A summary of significant accounting policies used in preparing these financial statements is presented below.

Net interest income (Net interest expense). Interest income and expense for all financial instruments, except for those classified as held for trading or those measured or designated as measured at fair value through profit or loss (FVTPL) are recognized on profit or loss accounts in "Net Interest Income" as "Interest Income" and "Interest Expense" using the effective interest rate method.

<u>Effective interest rate (EIR)</u> is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all contractual terms and conditions of the instrument.

The calculation of EIR includes all fees and payments paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

4. Summary of significant accounting policies (continued)

Interest income/interest expense is calculated by applying EIR to the gross carrying amount of non-credit-impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, interest income is calculated by applying EIR to the amortized cost of credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI), EIR reflects ECLs in determining the future cash flows expected to be received from the financial asset.

<u>Recognition of difference between the fair value of financial instruments at initial recognition and the arrangement price in profit or loss.</u> At the initial recognition of a financial instrument, the Bank recognizes profit or loss as the difference between the fair value of a financial asset or a financial liability and the contract price, if the effective interest rate under this instrument is higher than the market one. For financial instruments, the Bank sets and periodically revises underlying market rates, as well as relevant deviation ranges from underlying market rates. To set underlying basic rates, external information is used in respect of current interest rates under relevant banking transactions. In the event an estimated effective interest rate under the financial instrument, on initial recognition, differs from underlying market rates, with reference to relevant deviation ranges, the Bank recognizes this difference in profit or loss. The difference between the fair values of financial assets or financial liabilities and the cost of transactions with the Bank’s shareholders is recorded in equity and included in retained earnings (losses) as the total amount on disposal of the financial instrument.

Commission income/expense. Commission income and expense include fees, other than those that are an integral part of EIR. The fees included in the respective part of the Bank’s statement of comprehensive income, profit or loss include, among other things, fees charged for servicing loans, non-utilization commissions relating to loan commitments when it is unlikely that those will result in a specific lending arrangement, fees for monitoring a collateral, for changing primary lending terms and conditions on the borrower’s initiative, etc.

Commission expenses with regards to services are accounted for as the services are received.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 “Financial Instruments” are required to be subsequently measured at amortized cost or fair value on the basis of the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are subsequently measured at amortized cost;

4. Summary of significant accounting policies (continued)

- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis. Specifically:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies, in OCI; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at FVTOCI. The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

4. Summary of significant accounting policies (continued)

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank reasonably expect to occur, such as so-called “worst case” or “stress case” scenarios. The Bank takes into account all relevant evidence available, such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank’s key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred another item within equity.

Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Modifications in contractual cash flows are analyzed in accordance with the accounting policies set out below (“Modification and De-recognition of Financial Assets”).

Reclassifications. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank’s financial assets.

Impairment. The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Balances with the National Bank of Ukraine;
- Loans and advances to banks;
- Loans to advances to customers;
- Investments in securities;
- Other financial assets;

4. Summary of significant accounting policies (continued)

- Loan commitments.

No impairment loss is recognized on equity investments.

IFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition, in particular:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition and default events or have low credit risk at the reporting date. For these assets, 12-month expected credit losses are recognized.
- Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition and no default event has occurred. For these assets, lifetime ECLs are recognized.
- Stage 3 includes financial assets in respect of which a default event has occurred at the reporting date. For these assets, lifetime ECLs are recognized and interest revenue is calculated on the net carrying amount (net of loss allowance for expected credit losses). Those assets are considered to be credit impaired.

A loss allowance for full lifetime ECLs is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, allowances for ECLs are measured at an amount equal to 12-month ECLs.

The “three-stage” model does not apply to purchased or originated credit-impaired assets (“POCI”). Purchased or originated credit-impaired financial assets are those that, at the date of initial recognition, are credit-impaired. Expected credit losses for POCI assets are assessed on an individual basis. Purchased or originated credit-impaired assets are initially recognized at fair value. Lifetime expected credit losses for such financial assets are included in expected cash flows in the course of calculating the effective interest rate at initial recognition. The effective interest rate for the purpose of interest recognition during the asset’s life is the effective interest rate adjusted for credit risk.

The Bank estimates the expected credit losses on a financial instrument in the manner that reflects:

- An objective and probability-weighted amount determined by assessing a certain range of possible results;
- Time value of money;
- Reasonable and supportable information about past events, current conditions, and forward-looking information about economic conditions that is available without undue cost or effort as at the reporting date.

Expected credit losses are measured for separate loans (an individual basis) or loan portfolios with similar risk characteristics (a collective basis).

4. Summary of significant accounting policies (continued)

Expected credit losses represent an estimate of the present value of credit losses, with reference to probability of their occurrence. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset’s original EIR.

The Bank measures ECLs on an individual basis based on the discounted cash flows using several probability-weighted scenarios.

The Bank considers several scenarios regarding the recovery of funds from a borrower under each financial asset and analyzes each of them, even when the recovery under that scenario is very low.

In calculating an allowance for financial instruments measured on a collective basis, the Bank applies two approaches:

- General approach (for cash flows) is used for all financial assets under which repayment schedules are clearly defined and off-balance-sheet instruments (other than loan commitments);
- Simplified approach is used for all financial instruments under which repayment schedules cannot be clearly defined.

Credit-impaired financial assets. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred, which are described in detail in Note 28 “Financial Risk Management”. Credit-impaired financial assets are referred to as Stage 3 assets.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings, and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower’s financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit-impaired when there is observable evidence of credit-impairment, including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets. POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECLs since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

4. Summary of significant accounting policies (continued)

Definition of default. Critical to the determination of ECLs is the definition of default. The definition of default is used in measuring the amount of ECLs and in the determination of whether the loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

Key events that may evidence of default for a financial asset or a group of financial assets are described in detail in Note 28.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECLs. The Bank's accounting policy is not to use the practical expedient that financial assets with "low" credit risk at the reporting date are deemed not to have a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

The Bank uses a rebuttable presumption when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

Modification and de-recognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

4. Summary of significant accounting policies (continued)

The Bank renegotiates loans and advances to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified, the Bank assesses whether this modification results in de-recognition. In accordance with the Bank’s policy, a modification results in de-recognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10%, the Bank deems the arrangement is substantially different leading to de-recognition.

In the case where the financial asset is derecognized, the loss allowance for ECLs is re-measured at the date of de-recognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on de-recognition. The new financial asset will have a loss allowance measured based on 12-month ECLs except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, the Bank determines if the financial asset’s credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Bank’s forbearance policy, where modification did not result in de-recognition, the estimate of PD reflects the Bank’s ability to collect the modified cash flows taking into account the Bank’s previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower’s payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECLs.

4. Summary of significant accounting policies (continued)

The loss allowance on forborne loans will generally only be measured based on 12-month ECLs when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to de-recognition, the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then, the Bank measures ECLs for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash flows from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g., when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

<u>Write-off of assets</u>. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is 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 amounts subject to the write-off. A write-off constitutes a de-recognition event.

The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in increase in impairment gains.

4. Summary of significant accounting policies (continued)

Presentation of allowance for ECLs in the statement of financial position. Loss allowances for ECLs are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.
- For loan commitments and financial guarantee contracts: as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

De-recognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss.

4. Summary of significant accounting policies (continued)

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires that initial recognition of financial instruments be based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party transactions are disclosed in Note 33.

<u>Derivative financial instruments</u>. The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to credit risk and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate and currency swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

<u>Financial guarantee contracts</u>. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank’s revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the statement of financial position and the re-measurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions with the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for an individual asset or liability and their number held by the Bank. The price within a bid-ask spread that, according to the Bank’s management, is most representative of fair value in the circumstances is the average of actual trading prices at the reporting date.

4. Summary of significant accounting policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if a change in any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets, or total liabilities. Fair value measurements are analyzed by levels in the fair value hierarchy as follows: (i) Level One are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level Two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and (iii) Level Three measurements are valuations that are not based on observable market data (i.e. valuation require significant application of parameters with unobservable inputs).

Cash and cash equivalents. Cash and cash equivalents are assets which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include correspondent accounts with other banks and balances with the National Bank of Ukraine, other than the amount of mandatory reserves. Cash and cash equivalents are carried at amortized cost.

Loans and advances to banks. Loans and advances to banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. These accounts receivable are not related to derivative financial instruments and have no market quotations. Loans and advances to banks are carried at amortized cost.

Loans and advances to customers. Loans and advances to customers are initially measured at fair value or the equivalent amount, which is commonly net amount of the cash granted, including directly attributable costs and certain payments and fees for loan arrangement (commissions for loan arrangements, fees for loan commitments, and payments for services) that are treated as adjustment of the effective interest rate on a loan.

Loans and advances to customers are classified by the Bank on the basis of a business model and characteristics of contractual cash flows. As at the reporting date, loans and advances to customers are carried at amortized cost. Revenue from a loan, which represents interest, plus transaction costs and payments and fees included in the initial cost of the loan, is calculated by using the effective interest rate method and included in profit or loss over the period of the loan.

Investments in securities. This item includes investment securities that are classified by the Bank on the basis of a business model and characteristics of contractual cash flows. As at the end of the reporting period, the Bank included in that item the debt securities issued by foreign governments, government debt securities of Ukraine, municipal debt securities of Ukraine measured at fair value through other comprehensive income, and deposit certificates of the National Bank of Ukraine measured at amortized cost.

4. Summary of significant accounting policies (continued)

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and allowance for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property and equipment items are capitalized, and the replaced part is written-off. At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value, less costs to sell, and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value, less costs to sell.

Gains and losses on assets disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year within other operating income or expense.

Depreciation. Construction in progress is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives (in years)
Premises	20
Vehicles	5
Office and computer equipment	2-5
Leasehold improvements	1-3

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets other than goodwill. The Bank's intangible assets have definite useful lives and primarily include capitalized computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g., its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful lives of 2-10 years.

Right-of-use assets are assets representing a lessee's right to use an underlying asset during the lease term.

4. Summary of significant accounting policies (continued)

At the commencement date, the Bank measures the right-of-use asset at cost. The cost of the right-of-use asset comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the lessee; and (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, the Bank measures the right-of-use asset by applying a cost model, less any accumulated depreciation and any accumulated impairment losses, adjusted for any re-measurement of the lease liability. The Bank depreciates the right-of-use assets on a straight-line basis, with depreciation charges included other administrative and operational expense. Depreciation period corresponds to a term of the lease liability.

Lease liabilities. At the commencement date, the Bank measures the lease liability at the present value of lease payments that are not paid at that date. The Bank discounts the lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses the lessee's incremental borrowing rate. The Bank records lease liabilities separately in the statement of financial position, with interest on the lease liabilities recognized in interest income in the statement of comprehensive income, profit or loss.

Lease term is a non-cancellable period during which the Bank has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

Lessee's incremental borrowing rate 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.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. Due to other banks is a non-derivative financial liability carried at amortized cost.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, public or corporate customers and are carried at amortized cost.

Other borrowed funds. Other borrowed funds include borrowings from banking and non-banking financial institutions. Other borrowed funds are stated at amortized cost.

4. Summary of significant accounting policies (continued)

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

Tax expense (income). These financial statements reflect the tax issues in accordance with the legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Taxable profits or losses are based on estimates if the financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within other administrative and operational expense.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Issued capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds (Result from transactions with the shareholder).

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue are disclosed in the note "Events after the Reporting Period". Distribution of profit and its usage otherwise occurs on the basis of the financial statements of the Bank. The Ukrainian legislation identifies the basis of distribution as retained earnings.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank and the Bank's presentation currency is the national currency of Ukraine, Ukrainian Hryvnia ("UAH").

(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Monetary assets and liabilities are translated into the Bank’s functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank’s functional currency at year-end official exchange rates of the NBU, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2021 and 2020, major exchange rates established by the NBU that the Bank used in translating foreign currency denominated amounts were as follows:

	31 December 2021	**31 December 2020**
UAH/USD 1	27.2782	28.2746
UAH/EUR 1	30.9226	34.7396

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default, and (iii) the event of insolvency or bankruptcy.

Employee benefit expense. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leaves and sick leaves, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

5. Critical accounting estimates and judgments used in applying accounting policies

The Bank makes estimates and judgments that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are consistently reviewed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Significant increase in credit risk. As explained in Note 4 to these financial statements, ECLs are measured as an allowance equal to 12-month ECLs for Stage 1 assets, or lifetime ECLs assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking-information. Refer to Note 28 for more details.

Models and assumptions used. The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECLs. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 32 for more details on fair value measurement and Note 28 for more details on ECLs.

Key sources of estimation uncertainty. Listed below are key estimations that management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Determining and estimating scenarios of expected cash flows and their probabilities on loans and advances to customers measured on an individual basis. In estimating the degree of credit losses on loans and advances to customers measured on an individual basis, the Bank uses significant judgments of management to determine the expected future cash flows on the basis of probable scenarios. The Bank considers several scenarios in respect of the recovery of funds from borrowers and takes into account each of the scenarios, with reference to their relative probabilities. In analyzing future cash flows, all information is taken into account available at the moment of allowance calculation, both internal and external, that is based on open sources, as well as assumptions and projections. The Bank determines the probability for exercising each scenario for the financial instruments measured on an individual basis, with reference to the information available in respect of borrowers and their financial positions, current and forward-looking macroeconomic conditions, as well as considering the Bank's experience, based on judgments and reasonable assumptions. The Bank uses all available and accessible information obtained without excessive efforts that may have an effect on probability of one or several scenarios.

Probability of default (PD). PD constitutes a key input in measuring ECLs. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions.

5. Critical accounting estimates and judgments used in applying accounting policies (continued)

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Information on fair value measurements is provided in Note 32.

Initial recognition of transactions on receiving borrowed funds from the Bank's shareholders in the form of subordinated debt. In the normal course of business, the Bank transacts with related parties, in particular in respect of receiving borrowed funds from the Bank's shareholders. IFRS 9 requires that financial instruments at initial recognition be recognized at fair value. In the absence of an active market for such transactions, to determine whether the transactions are performed by using market or non-market rates, judgments are applied. Such judgments are based on pricing for similar types of transactions with unrelated parties and analysis of effective interest rate. Terms and conditions of related party transactions are discussed in Note 33.

6. Changes in the financial statements' presentation

During the year, in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", the Bank presented for the first time its financial statements based on the Taxonomy under the international financial reporting standards in a single electronic format for the previous reporting periods. The Bank changed the format of presentation and, correspondingly, the classification of items in the statement of financial position, the statement of comprehensive income, profit or loss, the statement of changes in equity, and the statement of cash flows. The Bank's management believes that those changes ensure the reliable and more appropriate information. In accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors", the changes have been made retrospectively, and the comparative data for 2020 have been corrected appropriately.

(in Ukrainian Hryvnias and in thousands)

6. Changes in the financial statements presentation (continued)

Changes in presentation that resulted in reclassification of amounts in the statement of financial position as at 31 December 2020 were as follows:

Previously presented	Newly presented	31 December 2020, previously presented	Impact of reclassifica-tions	31 December 2020, newly presented
Cash		857,762	(857,762)	-
	Cash and cash equivalents	-	857,762	857,762
Balances on accounts with the National Bank of Ukraine		524,160	(524,160)	-
	Cash and cash equivalents	-	524,160	524,160
Due from other banks		2,076,893	(2,076,893)	-
	Cash and cash equivalents	-	1,892,312	1,892,312
	Loans and advances to banks	-	184,581	184,581
Investment securities measured at fair value through other comprehensive income		1,768,651	(1,768,651)	-
	Investments in securities	-	1,768,651	1,768,651
Investment securities measured at amortized cost		3,501,147	(3,501,147)	-
	Investments in securities	-	3,501,147	3,501,147
Premises, equipment, and intangible assets		138,748	(138,748)	-
	Intangible assets other than goodwill	-	32,533	32,533
	Property, plant and equipment	-	106,215	106,215
Current accounts		9,777,164	(9,777,164)	-
	Customer accounts	-	9,777,164	9,777,164
Deposits		4,713,143	(4,713,143)	-
	Customer accounts	-	4,713,143	4,713,143
Other financial liabilities		51,828	(8,278)	43,550
	Derivative financial liabilities	-	6,967	6,967
	Provisions for loan commitments and financial guarantee contracts	-	1,311	1,311
Other non-financial liabilities		47,163	(29,535)	17,626
	Provisions for employee benefits	-	29,535	29,535
Share capital		795,914	(795,914)	-
	Issued capital	-	795,914	795,914
Unregistered share capital		46,041	(46,041)	-
	Issued capital	-	46,041	46,041

(in Ukrainian Hryvnias and in thousands)

6. Changes in the financial statements presentation (continued)

Changes in presentation that resulted in reclassification of amounts in the statement of comprehensive income, profit or loss for the year ended 31 December 2020 were as follows:

Previously presented	**Newly presented**	**2020, previously presented**	**Impact of reclassifica-tions**	**2020, newly presented**
Effect on initial recognition of interest-bearing assets and liabilities at the interest rates that differ from the market ones		39,998	(39,998)	-
	Gains (losses) on initial recognition of financial assets at interest rates above or below market	-	34,156	34,156
	Gains (losses) on initial recognition of financial liabilities at interest rates above or below market	-	5,772	5,772
	Other operating income (expense)	-	70	70
(Allowance)/decrease in allowance for expected credit losses on interest-bearing assets		(25,286)	25,286	-
	Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	(25,305)	(25,305)
	Other income	-	19	19
Net loss on changes in allowances for other financial assets/liabilities		(1,089)	1,089	-
	Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	(1,089)	(1,089)
Gain or loss on de-recognition of financial instruments		19,240	(19,240)	-
	Net increase (decrease) from operations with debt financial instruments at fair value through other comprehensive income	-	4,039	4,039
	Gain (loss) arising from derecognition of financial assets measured at amortised cost	-	15,364	15,364
	Other operating income (expense)	-	(163)	(163)
Gain or loss on modification of financial instruments		(44,588)	44,588	-
	Other operating income (expense)	-	(44,588)	(44,588)
Other operating income		26,044	(26,044)	-
	Other operating income (expense)	-	26,044	26,044
General and administrative expense		(424,809)	18	(424,791)
	Other expenses	-	(18)	(18)

(in Ukrainian Hryvnias and in thousands)

6. Changes in the financial statements presentation (continued)

Changes in presentation that resulted in reclassification of amounts in the statement of changes in equity for the year ended 31 December 2020 were as follows:

Previously presented	Newly presented	2020, previously presented	Impact of reclassifica-tions	2020, newly presented
Share capital		795,914	(795,914)	-
	Issued capital	-	795,914	795,914
Unregistered share capital		46,041	(46,041)	-
	Issued capital	-	46,041	46,041
Loss on changes in fair value of investments in securities measured at fair value through other comprehensive income		(2,750)	2,750	-
	Other comprehensive income	-	(2,750)	(2,750)
Income taxes recognized in other comprehensive income		495	(495)	-
	Other comprehensive income	-	495	495
Charges to reserve capital		(8,283)	8,283	-
	Distribution of previous years' profit	-	(8,283)	(8,283)
Increase in share capital at the cost of retained earnings		(156,810)	156,810	-
	Distribution of previous years' profit	-	(156,810)	(156,810)
Contributions to unregistered share capital		(46,041)	46,041	-
	Distribution of previous years' profit	-	(46,041)	(46,041)

Changes in presentation that resulted in reclassification of amounts in the statement of cash flows for the year ended 31 December 2020 were as follows:

Previously presented	Newly presented	2020, previously presented	Impact of reclassifica-tions	2020, newly presented
Net increase/(decrease) in:				
- Current accounts		2,874,257	(2,874,257)	-
	Net increase/(decrease) in customer accounts	-	2,874,257	2,874,257
- Deposits	-	1,804,065	(1,804,065)	-
	Net increase/(decrease) in customer accounts	-	1,804,065	1,804,065
Net increase/(decrease) in other financial assets and other non-financial assets		(35,980)	35,980	-
	Net (increase)/decrease in other financial assets	-	(37,179)	(37,179)
	Net (increase)/decrease in other assets	-	1,199	1,199

(in Ukrainian Hryvnias and in thousands)

6. Changes in the financial statements presentation (continued)

Previously presented (continued)	Newly presented	2020, previously presented	Impact of reclassifica-tions	2020, newly presented
Net increase/(decrease) in other financial liabilities and other non-financial liabilities		(15,639)	15,639	-
	Net increase/(decrease) in other financial liabilities	-	(17,373)	(17,373)
	Net increase/(decrease) in other liabilities	-	1,734	1,734
Purchases of investment securities measured at fair value through other comprehensive income		(1,567,510)	1,567,510	-
	Purchase of securities	-	(1,567,510)	(1,567,510)
Purchases of investment securities measured at amortized cost		(170,515,000)	170,515,000	-
	Purchase of securities	-	(170,515,000)	(170,515,000)
Proceeds on sales and repayment of investment securities measured at fair value through other comprehensive income		260,769	(260,769)	-
	Proceeds from sale and repayment of investments in securities	-	260,769	260,769
Proceeds on sales and repayment of investment securities measured at amortized cost		168,200,000	(168,200,000)	-
	Proceeds from sale and repayment of investments in securities	-	168,200,000	168,200,000

The impact of changes in the financial statement items that have not resulted in reclassification of amounts is presented in the table below:

Previously presented	Newly presented
Statement of financial position	
Loans to customers	Loans and advances to customers
Deferred tax asset	Deferred tax assets
Current income tax liabilities	Current tax liabilities
Issue costs	Result from transactions with the shareholder
Reserve fund	Reserve and other funds of a bank
Allowance for revaluation of investment securities measured at fair value through other comprehensive income	Other reserves
Statement of comprehensive income, profit or loss	
Net interest income	Net interest income (Net interest expense)
Services and commission income	Commission income
Services and commission expense	Commission expenses
Net gain on transactions with derivative financial instruments	Net increase (decrease) from financial instruments at fair value through profit or loss
Net gain on foreign exchange operations	Net increase (decrease) from trading in foreign currencies

6. Changes in the financial statements presentation (continued)

Previously presented (continued)	Newly presented
Net non-interest income	Net non-interest income (Net non-interest expense)
Staff costs	Employee benefits expense
Depreciation and amortization charges	Depreciation and amortisation expense
Profit, before income tax	Profit (loss) before tax
Income taxes	Tax expense (income)
Profit for the year	Profit (loss)
Gain/(loss) on changes in fair value of investments in securities measured at fair value through other comprehensive income	Gains (losses) on financial assets measured at fair value through other comprehensive income, before tax
Income taxes recorded directly in other comprehensive income	Income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income
Other comprehensive income for the year	Total other comprehensive income
Ordinary shares issued and fully paid (units)	Ordinary shares
Net earnings per ordinary share (in UAH per one share for the period)	Basic earnings per share
Statement of changes in equity	
Profit for the year	Profit (loss)
Issue costs	Result from transactions with the shareholder
Reserve fund	Reserve and other funds of a bank
Allowance for revaluation of investment securities measured at fair value through other comprehensive income	Other reserves
Gain or loss on adjustment of the value of financial instruments when terms and conditions of contracts on operations with shareholders are modified	Increase (decrease) through other changes, equity
Statement of cash flows	
Fees and commissions received	Commission income received
Fees and commissions paid	Commission expenses paid
Gain on transactions with derivative financial instruments	Net (increase)/decrease from operations with financial instruments at fair value through profit or loss
Gain on foreign exchange operations	Net (increase)/decrease from operations with foreign currencies
Other operating income received	Other cash receipts from operating activities
Administrative and other operating expense paid	Administrative expenses and other paid operating expenses
Staff costs	Payments to and on behalf of employees
Income taxes paid	Income taxes refund (paid)
Cash received from operating activities, before changes in operating assets and liabilities	Cash flows from (used in) operating activities
Net (increase)/decrease in due from other banks	Net (increase)/decrease in loans and receivables of banks
Net (increase)/decrease in loans to customers	Net (increase)/decrease in loans and advances to customers
Net cash received from operating activities	Net cash flows from (used in) operating activities
Net cash used in investing activities	Net cash flows from (used in) investing activities
Lease liabilities repaid	Payments of lease liabilities
Issue costs	Payments of other equity instruments
Net cash (used in)/received from financing activities	Net cash flows from (used in) financing activities
Effect of foreign exchange fluctuations on cash and cash equivalents	Effect of exchange rate changes on cash and cash equivalents
Net increase in cash and cash equivalents	Net increase (decrease) in cash and cash equivalents

Relevant notes for the years ended 31 December 2021 and 2020 were amended accordingly in compliance with the new presentation.

(in Ukrainian Hryvnias and in thousands)

7. Cash and cash equivalents

The Bank’s cash and cash equivalents for the purposes of the statement of cash flows were as follows:

	31 December 2021	**31 December 2020**
Cash	1,253,734	857,762
Correspondent account with the NBU	552,838	524,160
Correspondent accounts with other banks	1,407,765	1,892,312
Total cash and cash equivalents	**3,214,337**	**3,274,234**

As at 31 December 2021 and 2020, cash on correspondent account with the NBU was neither past due not impaired and was classified in Stage 1 of allowances for expected credit losses and corresponded to the credit rating of B.

Analysis by credit quality of correspondent account balances with other banks as at 31 December 2021 and 2020 was as follows:

	31 December 2021	**31 December 2020**
Stage 1		
A- to AA+ rated	1,376,182	1,611,025
BB- to BBB+ rated	3,722	264,083
B- to B+ rated	9,855	7,406
Unrated	18,480	11,574
Total on Stage 1	**1,408,239**	**1,894,088**
Allowance for expected credit losses (Stage 1)	(474)	(1,776)
Total correspondent account balances	**1,407,765**	**1,892,312**

Credit ratings on correspondent accounts with other banks and correspondent account with the NBU are based on Standard & Poor’s ratings, where available, or Fitch’s and Moody’s ratings converted to the nearest equivalent on the Standard & Poor’s rating scale.

As at 31 December 2021 and 2020, included in the category of “Unrated” were funds in the amount of UAH 18,480 thousand and UAH 11,574 thousand, respectively, placed with the domestic banks that had no credit ratings assigned by international rating agencies.

As at 31 December 2021 and 2020, total balance on correspondent accounts with other banks, before allowance, on the accounts with five counterparty banks amounted to UAH 1,398,651 thousand and 1,892,284 thousand, which represented 99.3% and 99.7% of balances on correspondent accounts, respectively.

(in Ukrainian Hryvnias and in thousands)

8. Loans and advances to banks

	31 December 2021	31 December 2020
Term deposits with other banks	369,067	188,274
Allowance for expected credit losses	(973)	(3,693)
Total loans and advance to banks	**368,094**	**184,581**

Analysis by credit quality of loans and advances to banks as at 31 December 2021 and 2020 was as follows:

	31 December 2021	31 December 2020
Stage 1		
A- to AA+ rated	305,521	183,793
BB- to BBB+ rated	93	104
B- to B+ rated	62,417	583
Unrated	130	122
Total on Stage 1	**368,161**	**184,602**
Allowance for expected credit losses (Stage 1)	(741)	(21)
Stage 3		
BB- to BBB+ rated	188	196
B- to B+ rated	718	3,476
Total on Stage 3	**906**	**3,672**
Allowance for expected credit losses (Stage 3)	(232)	(3,672)
Total allowance for expected credit losses on loans and advances to banks	**(973)**	**(3,693)**
Total loans and advances to banks	**368,094**	**184,581**

Credit ratings on loans and advances to banks are based on Standard & Poor’s ratings, where available, or Fitch’s and Moody’s ratings converted to the nearest equivalent on the Standard & Poor’s rating scale.

As at 31 December 2021 and 2020, included in the category of “Unrated” were funds in the amount of UAH 130 thousand and UAH 122 thousand, respectively, placed with the domestic banks that had no credit ratings assigned by international rating agencies.

(in Ukrainian Hryvnias and in thousands)

8. Loans and advances to banks (continued)

As at 31 December 2021 and 2020, balance of loans and advances to banks, before allowance, on the accounts with five counterparty banks amounted to UAH 367,666 thousand and UAH 183,793 thousand, which represented 99.9% and 99.6% of gross value of loans and advances to banks, respectively.

Analysis of loans and advances to banks by interest rates, as well as geographical concentration, foreign currency, and liquidity risks is presented in Note 28.

9. Loans and advances to customers

Loans and advances to customers were as follows:

	31 December 2021	**31 December 2020**
Loans to legal entities	9,000,801	7,196,848
Loans to individuals	101,797	58,817
Total loans and advances to customers, before allowance for expected credit losses	**9,102,598**	**7,255,665**
Allowance for expected credit losses	(228,496)	(233,729)
Total loans and advances to customers	**8,874,102**	**7,021,936**

Movements in allowance for expected credit losses on loans and advances to customers for the year ended 31 December 2021 were as follows:

	Loans to legal entities	**Loans to individuals**	**Total**
Allowance for expected credit losses as at 31 December 2020	**230,284**	**3,445**	**233,729**
Allowance/(decrease in allowance) for expected credit losses during the year	(14,798)	825	(13,973)
Adjustment of allowance due to modification of POCI loan	10,617	-	10,617
Loans sold/written off during the year	(2)	(524)	(526)
Interest adjustment	(1,351)	-	(1,351)
Allowance for expected credit losses as at 31 December2021	**224,750**	**3,746**	**228,496**

(in Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Movements in allowance for expected credit losses on loans and advances to customers for the year ended 31 December 2020 were as follows:

	Loans to legal entities	Loans to individuals	Total
Allowance for expected credit losses as at 31 December 2019	**238,616**	**1,847**	**240,463**
Allowance for expected credit losses during the year	10,473	1,890	12,363
Adjustment of allowance due to de-recognition of Stage 3 loans and recognition of POCI loans	(17,788)	-	(17,788)
Loans sold/written off during the year	(1,186)	(292)	(1,478)
Interest adjustment	169	-	169
Allowance for expected credit losses as at 31 December 2020	**230,284**	**3,445**	**233,729**

Risk concentrations within the customer loan portfolio by sectors of economy were as follows:

	31 December 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Trade	4,377,782	48	3,199,632	44
Agriculture, fishery, and food processing	1,714,366	19	1,029,898	14
Manufacturing	1,138,243	12	985,817	14
Transport and communication	908,159	10	769,790	11
Construction and real estate operations	499,092	5	421,649	6
Financial and investment operations	147,774	2	154,833	2
Loans to individuals	101,797	1	58,818	1
Tourist and hotel services, restaurant business	46,193	1	72,085	1
Other services	169,192	2	563,143	7
Total loans and advances to customers, before allowance for expected credit losses	**9,102,598**	**100**	**7,255,665**	**100**

As at 31 December 2021, total gross value of the loans granted to top 10 borrowers of the Bank amounted to UAH 1,683,440 thousand (31 December 2020: UAH 1,711,428 thousand), or 18% of the total loan portfolio (31 December 2020: 24%). At the same time, as at 31 December 2021, exposures of top 10 borrowers were partly covered by the collateral of property rights to deposits in the amount of UAH 252,704 thousand (31 December 2020: UAH 210,404 thousand).

(in Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

The following table summarizes the proportionate amount of collateralized loans and advances to customers and not the fair value of collateral as at 31 December 2021:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	1,800,777	60,098	1,860,875
Loans collateralized by:			
- Residential real estate items	269,091	11,781	280,872
- Other real estate items	3,629,739	24,248	3,653,987
- Cash deposits	496,106	56	496,162
- Other assets	2,805,088	5,614	2,810,702
Total loans and advances to customers, before allowance for expected credit losses	**9,000,801**	**101,797**	**9,102,598**

Items in the tables above are represented by a lower of the gross carrying value of loans, before allowance for expected credit losses, or collateral taken; with the remaining part disclosed within unsecured exposures. The carrying value of loans was allocated based on the liquidity of assets taken as collateral in the following order: cash deposits, residential real estate, other real estate, and other assets.

As at 31 December 2021, loans and advances to customers with the total amount of UAH 496,162 thousand (31 December 2020: UAH 448,333 thousand) were secured by cash deposits (Note 15) for the total amount of UAH 651,849 thousand (31 December 2020: UAH 567,979 thousand).

As at 31 December 2021, impaired loans and purchased or credit-impaired loans with gross carrying value of UAH 250,875 thousand (31 December 2020: UAH 197,040 thousand) were secured by the collateral represented mostly by real estate and other assets in the amount of UAH 248,241 thousand (31 December 2020: UAH 183,147 thousand), or 99% (31 December 2020: 93%).

Fair value of properties pledged as collateral during the reporting period was assessed by independent experts – professional appraisers. "Other Assets" category includes the following types of collateral: other movable property, other property rights, and other types of assets.

The following table summarizes the proportionate amount of collateralized loans and advances to customers and not the fair value of collateral as at 31 December 2020:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	1,128,299	35,968	1,164,267
Loans collateralized by:			
- Residential real estate items	195,791	12,063	207,854
- Other real estate items	3,454,997	8,340	3,463,337
- Cash deposits	447,065	1,268	448,333
- Other assets	1,970,696	1,178	1,971,874
Total loans and advances to customers, before allowance for expected credit losses	**7,196,848**	**58,817**	**7,255,665**

(in Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Analysis of loans and advances to customers by credit quality as at 31 December 2021 was as follows:

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not past due	8,240,846	89,224	8,330,070
- Past due less than 30 days	4,866	303	5,169
Total on Stage 1	**8,245,712**	**89,527**	**8,335,239**
Stage 2, loans with a significant increase in credit risk			
- Not past due	516,144	11	516,155
- Past due from 31 to 90 days	-	329	329
Total on Stage 2, loans with a significant increase in credit risk	**516,144**	**340**	**516,484**
Stage 3, impaired loans			
- Not past due	125,366	200	125,566
- Past due less than 30 days	-	122	122
- Past due from 31 to 90 days	-	11	11
- Past due from 91 to 180 days	-	1,012	1,012
- Past due from 181 to 360 days	-	201	201
- Past due more than 360 days	18,823	10,384	29,207
Total on Stage 3, impaired loans	**144,189**	**11,930**	**156,119**
Purchased or originated credit-impaired loans			
- Not past due	23,456	-	23,456
- Past due less than 30 days	71,300	-	71,300
Total purchased or originated credit-impaired loans	**94,756**	**-**	**94,756**
Total loans and advances to customers, before allowance for expected credit losses	**9,000,801**	**101,797**	**9,102,598**
Allowance for expected credit losses	**(224,750)**	**(3,746)**	**(228,496)**
Total loans and advances to customers	**8,776,051**	**98,051**	**8,874,102**

(in Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Analysis of loans and advances to customers by credit quality as at 31 December 2020 was as follows:

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not past due	6,374,168	44,913	6,419,081
- Past due less than 30 days	-	439	439
Total on Stage 1	**6,374,168**	**45,352**	**6,419,520**
Stage 2, loans with a significant increase in credit risk			
- Not past due	633,224	-	633,224
- Past due less than 30 days	5,660	-	5,660
- Past due from 31 to 90 days	1	220	221
Total on Stage 2, loans with a significant increase in credit risk	**638,885**	**220**	**639,105**
Stage 3, impaired loans			
- Not past due	127,188	50	127,238
- Past due less than 30 days	4,733	-	4,733
- Past due from 31 to 90 days	1,098	1	1,099
- Past due from 91 to 180 days	28,987	422	29,409
- Past due from 181 to 360 days	1,894	11,584	13,478
- Past due more than 360 days	-	1,188	1,188
Total on Stage 3, impaired loans	**163,900**	**13,245**	**177,145**
Purchased or originated credit-impaired loans			
- Not past due	19,895	-	19,895
Total loans and advances to customers, before allowance for expected credit losses	**7,196,848**	**58,817**	**7,255,665**
Allowance for expected credit losses	**(230,284)**	**(3,445)**	**(233,729)**
Total loans and advances to customers	**6,966,564**	**55,372**	**7,021,936**

(in Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

As at 31 December 2021, loans and advances to customers with the gross carrying value of UAH 622,842 thousand (31 December 2020: UAH 639,338 thousand) were transferred as a collateral to secure for the borrowing obtained from WORLDBUSINESS CAPITAL, INC., USA (Notes 17, 30).

Other information on loans and advances to customers (a detailed analysis of movements in allowances for expected credit losses and their allocation by impairment stages) is provided in Note 28.

Analysis of loans and advances to customers by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

10. Investments in securities

Investments in securities were as follows:

	31 December 2021	31 December 2020
Investments in securities measured at fair value through other comprehensive income		
Government debt securities of Ukraine	4,386,998	1,543,122
Municipal debt securities of Ukraine	25,748	36,885
Debt securities issued by foreign governments	165,997	188,644
Total investments in securities measured at fair value through other comprehensive income	**4,578,743**	**1,768,651**
Investments in securities measured at amortized cost		
Deposit certificates of the NBU	1,731,421	3,501,147
Total investments in securities measured at amortized cost	**1,731,421**	**3,501,147**
Total investments in securities	**6,310,164**	**5,269,798**

As at 31 December 2021, the Bank created an allowance for expected credit losses on investments in securities measured at fair value through other comprehensive income in the amount of UAH 43,132 thousand (31 December 2020: UAH 11,035 thousand).

(in Ukrainian Hryvnias and in thousands)

10. Investments in securities (continued)

Analysis of investments in securities by credit quality as at 31 December 2021 was as follows:

	Government debt securities of Ukraine	Municipal debt securities of Ukraine	Debt securities issued by foreign governments	Deposit certificates of the NBU	Total
Stage 1					
A- to AA+ rated	-	-	97,134	-	97,134
BBB- to BBB+ rated	-	-	68,863	-	68,863
B- to B+ rated	4,386,998	25,748	-	1,731,421	6,144,167
Total investments in securities	**4,386,998**	**25,748**	**165,997**	**1,731,421**	**6,310,164**

Analysis of investments in securities by credit quality as at 31 December 2020 was as follows:

	Government debt securities of Ukraine	Municipal debt securities of Ukraine	Debt securities issued by foreign governments	Deposit certificates of the NBU	Total
Stage 1					
A- to AA+ rated	-	-	86,011	-	86,011
BBB- to BBB+ rated	-	-	102,633	-	102,633
B- to B+ rated	1,543,122	36,885	-	3,501,147	5,081,154
Total investments in securities	**1,543,122**	**36,885**	**188,644**	**3,501,147**	**5,269,798**

Investments in securities have no collateral.

Credit ratings are based on ratings of the international rating agency Standard & Poor’s, where available, or based on ratings of the international rating agencies Fitch’s and Moody’s converted to the nearest equivalent on the Standard & Poor’s rating scale.

Analysis of investment in securities by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Fair values of investments in securities are disclosed in Note 32.

(in Ukrainian Hryvnias and in thousands)

11. Property and equipment and intangible assets, other than goodwill

	Leasehold improve-ments	Vehicles	Office and computer equipment	Construction in progress	Total property and equipment	Intangible assets, other than goodwill	Capital investment in progress in intangible assets	Total intangible assets, other than goodwill
Cost as at 1 January 2020	**30,648**	**25,592**	**227,742**	**2,509**	**286,491**	**59,344**	**-**	**59,344**
Accumulated depreciation and amortization	(22,833)	(12,455)	(133,530)	-	(168,818)	(37,783)	-	(37,783)
Net book value as at 1 January 2020	**7,815**	**13,137**	**94,212**	**2,509**	**117,673**	**21,561**	**-**	**21,561**
Additions	5,163	2,715	37,416	2,069	47,363	24,213	1,121	25,334
Disposals	-	-	(108)	-	(108)	(1)	-	(1)
Depreciation and amortisation expense	(5,337)	(4,288)	(49,088)	-	(58,713)	(14,361)	-	(14,361)
Net book value as at 31 December 2020	**7,641**	**11,564**	**82,432**	**4,578**	**106,215**	**31,412**	**1,121**	**32,533**
Cost as at 31 December 2020	**34,228**	**27,794**	**263,883**	**4,578**	**330,483**	**83,550**	**1,121**	**84,671**
Accumulated depreciation and amortization	(26,587)	(16,230)	(181,451)	-	(224,268)	(52,138)	-	(52,138)
Net book value as at 31 December 2020	**7,641**	**11,564**	**82,432**	**4,578**	**106,215**	**31,412**	**1,121**	**32,533**
Additions	6,580	1,814	38,173	-	46,567	20,699	7,221	27,920
Disposals	-	-	(44)	(600)	(644)	(1,536)	-	(1,536)
Depreciation and amortisation expense	(6,123)	(4,199)	(50,880)	-	(61,202)	(17,933)	-	(17,933)
Net book value as at 31 December 2021	**8,098**	**9,179**	**69,681**	**3,978**	**90,936**	**32,642**	**8,342**	**40,984**
Cost as at 31 December 2021	39,485	29,061	298,971	3,978	371,495	101,473	8,342	109,815
Accumulated depreciation and amortization	(31,387)	(19,882)	(229,290)	-	(280,559)	(68,831)	-	(68,831)
Net book value as at 31 December 2021	**8,098**	**9,179**	**69,681**	**3,978**	**90,936**	**32,642**	**8,342**	**40,984**

As at 31 December 2021, fully depreciated and amortized assets continued to be used by the Bank amounted to UAH 208,450 thousand (31 December 2020: UAH 149,219 thousand).

(in Ukrainian Hryvnias and in thousands)

12. Right-of-use assets and lease liabilities

Right-of-use assets comprised the following:

	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2021	**149,533**	**759**	**150,292**
Accumulated depreciation as at 1 January 2021	(88,464)	(514)	(88,978)
Additions	15,736	65	15,801
Modifications	70,225	402	70,627
Disposals	(7,146)	(72)	(7,218)
Depreciation charges	(57,112)	(243)	(57,355)
Net book value as at 31 December 2021	**82,772**	**397**	**83,169**

	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2020	**115,006**	**614**	**115,620**
Accumulated depreciation as at 1 January 2020	(39,926)	(264)	(40,190)
Additions	10,222	-	10,222
Modifications	27,697	251	27,948
Disposals	(3,392)	(106)	(3,498)
Depreciation charges	(48,538)	(250)	(48,788)
Net book value as at 31 December 2020	**61,069**	**245**	**61,314**

As at 31 December 2021 and 2020, average lease term on the Bank’s premises amounted to 3 years, without a possibility to extend the lease. The Bank has no possibility to repurchase lease items at the nominal value at the end of the lease term.

(in Ukrainian Hryvnias and in thousands)

12. Right-of-use assets and lease liabilities (continued)

The following lease liabilities were recognized in the statement of comprehensive income, profit or loss:

	For 12 months of 2021	**For 12 months of 2020**
Depreciation and amortisation expense on lease liabilities	(57,355)	(48,788)
Interest expense on lease liabilities	(7,621)	(11,243)
Expense related to short-term leases	(476)	(508)
Expense related to leases of low-value underlying assets	(3,453)	(1,730)
Expense on a variable portion of lease payments	(251)	-
Total effect on financial gain or loss	**(69,156)**	**(62,269)**

Movements of lease liabilities were as follows:

	2021	**2020**
Lease liabilities as at 1 January	**59,947**	**73,752**
Increase in lease liabilities (Note 19)	78,474	33,885
Interest accrued (Note 19)	7,621	11,243
Payments of lease liabilities (Note 19)	(68,322)	(58,933)
Lease liabilities as at 31 December	**77,720**	**59,947**

Lease liabilities based on maturities are disclosed in Note 28.

(in Ukrainian Hryvnias and in thousands)

13. Other financial and non-financial assets

	31 December 2021	31 December 2020
Other financial assets		
Restricted cash	270,104	262,219
Accounts receivable on transactions with banks	137,005	-
Other financial assets	22,341	15,770
Total other financial assets, before allowance for expected credit losses	**429,450**	**277,989**
Allowance for expected credit losses	**(4,738)**	**(375)**
Total other financial assets	**424,712**	**277,614**
Other non-financial assets		
Accounts receivable on assets and services purchased	24,750	10,027
Deferred expense	22,104	12,939
Inventories	10,366	694
Repossessed collateral by the Bank	644	2,073
Taxes prepaid, other than income taxes	312	562
Total other non-financial assets	**58,176**	**26,295**
Total other financial and non-financial assets	**482,888**	**303,909**

Restricted cash comprises the guarantee cover placed by the Bank within international payment systems of Visa and Master Card in the amount of UAH 266,151 thousand and cash cover in EXT LTD Cyprus for the purpose of marginal trade by banking metals in the amount of UAH 3,953 thousand. This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand.

Accounts receivable on transactions with banks are represented by advances of deferred payments under a letter of credit. This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand.

(in Ukrainian Hryvnias and in thousands)

13. Other financial and non-financial assets (continued)

Analysis of other financial assets by credit quality as at 31 December 2021 and 2020 was as follows:

	31 December 2021	31 December 2020
Restricted cash		
Stage 2		
A- to AA+ rated	266,151	262,219
Unrated	3,953	-
Total restricted cash	**270,104**	**262,219**
Allowance for expected credit losses on restricted cash	(4,036)	(86)
Accounts receivable on transactions with banks		
Stage 2		
- Not past due	137,005	-
Total accounts receivable on transactions with banks	**137,005**	**-**
Allowance for expected credit losses on accounts receivable with banks	-	-
Other financial assets		
Stage 2		
- Not past due	-	-
- Past due less than 30 days	21,889	15,517
Stage 3		
- Past due from 31 to 60 days	13	16
- Past due from 61 to 90 days	21	15
- Past due more than 90 days	418	222
Total other financial assets	**22,341**	**15,770**
Allowance for expected credit losses on other financial assets	(702)	(289)
Total other financial assets	**424,712**	**277,614**

Analysis of other financial assets by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28.

(in Ukrainian Hryvnias and in thousands)

14. Due to other banks

	31 December 2021	31 December 2020
Correspondent accounts and overnight deposits of banks	44,796	79,986
Total due to other banks	**44,796**	**79,986**

As at 31 December 2021, the largest exposure on correspondent accounts and overnight deposits of banks related to a non-resident bank and amounted to UAH 30,284 thousand, which represented 68% of total correspondent accounts and overnight deposits of banks (31 December 2020: UAH 68,821 thousand, which represented 86% of total correspondent accounts and overnight deposits of banks).

Analysis of due to other banks by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

15. Customer accounts

	31 December 2021	31 December 2020
Current accounts		
- Current accounts of legal entities	9,669,945	7,651,332
- Current accounts of individuals	2,880,839	2,125,832
Total current accounts	**12,550,784**	**9,777,164**
Deposits		
- Deposits of legal entities	2,557,690	2,422,865
- Deposits of individuals	2,275,506	2,290,278
Total deposits	**4,833,196**	**4,713,143**
Total current accounts	**17,383,980**	**14,490,307**

As at 31 December 2021, included in current account balances were demand deposits totaling to UAH 185,296 thousand (31 December 2020: UAH 474,352 thousand), of which UAH 27,457 thousand related to individuals (31 December 2020: UAH 87,138 thousand) and UAH 157,839 thousand related to legal entities (31 December 2020: UAH 387,214 thousand). As at 31 December 2021, those deposits earned interest at the rates ranging from 0.01% to 9% p.a. (31 December 2020: ranging from 0.01% to 12.8% p.a.) depending on the remaining balance of the account and currency.

(in Ukrainian Hryvnias and in thousands)

15. Customer accounts (continued)

As at 31 December 2021, total amount of top 10 customers on current accounts of the Bank was UAH 3,472,866 thousand (31 December 2020: UAH 2,674,572 thousand), or 28% (31 December 2020: 27%) of total current accounts.

As at 31 December 2021, deposits of top 10 customers of the Bank amounted to UAH 2,104,451 thousand (31 December 2020: UAH 2,384,806 thousand), or 44% (31 December 2020: 51%) of total deposits.

As at 31 December 2021, included in customer accounts were balances totaling to UAH 651,849 thousand (31 December 2020: UAH 567,979 thousand) placed by customers as collateral to secure for loans and advances to customers (Note 9) totaling to UAH 496,162 thousand (31 December 2020: UAH 448,333 thousand).

As at 31 December 2021, included in customer accounts were balances totaling to UAH 300,805 thousand (31 December 2020: UAH 43,376 thousand) placed by customers as collateral to secure for loan commitments (Note 30).

Current accounts allocated by economic sectors were as follows:

	31 December 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Transport, telecommunications	3,069,873	24	2,751,016	28
Individuals	2,880,839	23	2,125,832	22
Trade	2,825,335	23	2,175,596	22
Financial intermediaries	832,744	7	673,442	7
Processing industry	810,160	6	704,700	7
Professional services	516,303	4	294,965	3
Construction	455,307	4	408,925	4
Agriculture	364,807	3	428,319	4
Other	795,416	6	214,369	3
Total current accounts	**12,550,784**	**100**	**9,777,164**	**100**

(in Ukrainian Hryvnias and in thousands)

15. Customer accounts (continued)

Deposits allocated by economic sectors were as follows:

	31 December 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Individuals	2,275,506	47	2,290,278	49
Construction	1,281,720	27	842,902	17
Trade	406,378	8	920,277	20
Transport, telecommunications	247,179	5	121,821	2
Professional services	237,550	5	223,417	5
Financial intermediaries	217,085	4	163,939	3
Processing industry	49,807	1	130,668	3
Other	117,971	3	19,841	1
Total deposits	**4,833,196**	**100**	**4,713,143**	**100**

Analysis of customer accounts by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

16. Other financial and non-financial liabilities

	31 December 2021	31 December 2020
Other financial liabilities		
Accounts payable on lending operations	20,000	-
Accounts payable on assets and services purchased	28,132	26,098
Settlements with customers	8,231	12,154
Commissions on loans prepaid	5,319	3,352
Expense accrued on services	1,149	721
Other financial liabilities	6,782	1,225
Total other financial liabilities	**69,613**	**43,550**
Other non-financial liabilities		
Payables to Individual Deposit Guarantee Fund	9,098	7,709
Deferred income	6,043	5,240
Taxes payable, other than income taxes	4,607	4,240
Other liabilities	261	437
Total other non-financial liabilities	**20,009**	**17,626**
Total other financial and non-financial liabilities	**89,622**	**61,176**

Analysis of other financial liabilities by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28.

17. Other borrowed funds

Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8,000 thousand. The borrowing is repayable in 32 (thirty two) equal instalments every three months after 24 months of the borrowing's use starting from 20 December 2019. The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine. In 2021, the Bank repaid USD 1,000 thousand (2020: USD 1,000 thousand).

In February 2019, the Bank entered into another agreement with WORLDBUSINESS CAPITAL, INC., USA, and, in March 2019, received a long-term borrowing for the period of 9 (nine) years in the amount of USD 8,000 thousand. The principal of the borrowing is repayable in 34 (thirty four) instalments as at each payment date starting from 20 December 2019. In 2021, the Bank repaid USD 944 thousand (2020: USD 944 thousand).

The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine (besides, at least 25% should be directed to lending businesses owned or managed by women). Effective from 1 January 2020, OVERSEAS PRIVATE INVESTMENT CORPORATION appointed and assigned all its functions, personnel, assets, liabilities, including its rights, obligations, and duties, to another legal entity, United States International Development Finance Corporation.

The contractual interest rates are based on 3-month USD LIBOR rate plus margin of 4.25% and 3.8%, respectively, which, as at 31 December 2021, amounted to 4.5% and 4.05%, respectively (31 December 2020: 4.5% and 4.05%, respectively). Interest is payable on a three month basis over the term of the borrowing agreement.

As at 31 December 2021, carrying value of other borrowed funds amounted to UAH 309,211 thousand (31 December 2020: UAH 372,653 thousand).

The Bank should comply with certain covenants relating to its other borrowed funds. A failure to comply with those covenants may result in negative consequences to the Bank, including a demand to early repay funds by the borrower at the lender's discretion. As at 31 December 2021 and 2020, the Bank was in compliance with the covenants imposed by the agreements on other borrowed funds.

Information on changes in the Bank's liabilities on other borrowed funds, including cash and non-cash changes, is provided in Note 19.

Analysis of other borrowed funds by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Information on provisions for other borrowed funds described above is disclosed in Note 30.

(in Ukrainian Hryvnias and in thousands)

18. Subordinated debt

	Currency	Maturity	Nominal rate, %	31 December 2021	31 December 2020
Subordinated debt received from a related party-individual	USD	6 September 2027	6	56,962	59,378
Subordinated debt received from a related party-individual	USD	30 November 2028	7	46,544	52,362
Subordinated debt received from a related party-individual	USD	11 October 2028	5	103,286	-
Total subordinated debt				**206,792**	**111,740**

In October 2021, an additional agreement was concluded on extending the USD-denominated subordinated debt from a related party-individual in the amount of USD 2,000 thousand for the period to 30 November 2028 (the previous maturity date was on 30 November 2025), and the interest rate was decreased from 8% to 7%. The result on extending the period for attracting USD-denominated borrowed funds and reduced interest rate was recognized in equity in the amount of UAH 4,507 thousand.

In October 2021, a new agreement was concluded on attracting the USD-denominated subordinated debt from a related party-individual in the amount of USD 4,000 thousand for the period to 11 October 2028. The result on borrowing funds at the interest rate lower than the market one was recognized in equity in the amount of UAH 6,146 thousand.

19. Reconciliation of liabilities arising from financing activities

The tables below detail main changes in the Bank’s liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were, or future cash flows will be, classified in the Bank’s statement of cash flows as cash flows from financing activities for the years ended 31 December 2021 and 2020.

					Non-cash changes			
	1 January 2021	Proceeds from cash flows	Repay-ments from cash flows	Interest paid	Interest expense	Foreign exchange differences	Other non-cash changes	31 Decem-ber 2021
Other borrowed funds	372,653	-	(52,897)	(14,931)	17,694	(13,308)	-	309,211
Subordinated debt	111,740	105,368	-	(8,276)	9,197	(585)	(10,652)	206,792
Lease liabilities	59,947	-	(60,701)	(7,621)	7,621	-	78,474	77,720
Total reconciliation of liabilities arising from financing activities	**544,340**	**105,368**	**(113,598)**	**(30,828)**	**34,512**	**(13,893)**	**67,822**	**593,723**

(in Ukrainian Hryvnias and in thousands)

19. Reconciliation of liabilities arising from financing activities (continued)

				Non-cash changes			
	1 January 2020	**Repayments from cash flows**	**Interest paid**	**Interest expense**	**Foreign exchange differences**	**Other non-cash changes**	**31 December 2020**
Other borrowed funds	355,854	(53,714)	(22,633)	24,644	68,502	-	372,653
Subordinated debt	92,455	-	(7,520)	7,953	18,852	-	111,740
Lease liabilities	73,752	(47,690)	(11,243)	11,243	-	33,885	59,947
Total reconciliation of liabilities arising from financing activities	**522,061**	**(101,404)**	**(41,396)**	**43,840**	**87,354**	**33,885**	**544,340**

20. Issued capital

	Number of issued shares	**Amount**
As at 1 January 2020	**3,073,500**	**639,104**
Increase in issued capital at the cost of retained earnings	-	202,851
As at 31 December 2020	**3,073,500**	**841,955**
Increase in issued capital at the cost of retained earnings	-	141,995
As at 31 December 2021	**3,073,500**	**983,950**

In accordance with the Ukrainian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of the financial information prepared in accordance with the requirements of the National Bank of Ukraine.

No dividends on ordinary shares of the Bank were declared during 2021 and 2020.

The reserve and other funds in equity accounted for in accordance with the NBU requirements amounted to UAH 38,996 thousand as at 31 December 2021 (31 December 2020: UAH 31,501 thousand). Charges to the reserve and other funds are made from the net profits for the reporting year retained by the Bank after paying taxes and making other mandatory payments and should be at least 5% of the Bank's net profits. The reserve and other funds may only be used to cover losses of the Bank for the reporting year in accordance with the decision of the Bank's Supervisory Board and in line with the procedure established by the General Shareholders' Meeting.

(in Ukrainian Hryvnias and in thousands)

20. Issued capital (continued)

As at 31 December 2021, all shares were represented by ordinary shares with the nominal value of UAH 320.14 per share (31 December 2020: UAH 258.96 per share). In February 2021, the National Securities and Stock Market Commission registered the issue of the Bank's shares with the nominal value of UAH 273.94 per share. Each ordinary share has one voting voice. All shares were authorized for issue, issued, and fully paid and have equal voting rights, as well as rights to receive dividends and return capital to shareholders.

In April 2021, the sole shareholder decided to increase the Bank's issued capital by UAH 141,995 thousand to the total amount of UAH 983,950 thousand and, also, approved profits for 2020 in the amount of UAH 149,490 thousand and their distribution as follows:

- UAH 7,495 thousand distributable to the Bank's reserve and other funds;
- UAH 141,995 thousand distributable to increase the issued capital.

The Bank's issued capital was increased through the increase in the nominal value of the Bank's shares by UAH 46.20 to the total value of UAH 320.14 per share. In June 2021, the new version of the Bank's Charter was state registered. On 22 July 2021, the National Securities and Stock Market Commission registered the increase in the Bank's issued capital by UAH 141,995 thousand to the total amount of UAH 983,950 thousand through the increase in the nominal value of shares to UAH 320.14 per share.

21. Interest income and expense

	For 12 months of 2021	For 12 months of 2020
Interest income		
Interest income on financial assets measured at amortized cost:		
Loans to legal entities	931,018	911,127
Investments in securities measured at amortized cost	36,779	161,118
Loans to individuals	16,130	16,575
Loans and advances to banks	1,478	3,328
Interest income on financial assets measured at fair value through other comprehensive income:		
Investments in securities measured at fair value through other comprehensive income	386,495	56,996
Total interest income	**1,371,900**	**1,149,144**

(in Ukrainian Hryvnias and in thousands)

21. Interest income and expense (continued)

(continued)	For 12 months of 2021	For 12 months of 2020
Interest expense		
Interest expense on financial liabilities measured at amortized cost:		
Current/settlement accounts	214,748	254,121
Term deposits of individuals	97,090	112,681
Term deposits of legal entities	80,094	51,715
Other borrowed funds (Note 19)	17,694	24,644
Subordinated debt	9,197	7,953
Interest expense on lease liabilities (Note 19)	7,621	11,243
Due to other banks	2,407	13,468
Total interest expense	**428,851**	**475,825**
Net interest income (Net interest expense)	**943,049**	**673,319**

22. Commission income and expense

	For 12 months of 2021	For 12 months of 2020
Commission income		
- Cash and settlement transactions	754,832	572,915
- Purchase and sale of foreign currency	124,159	98,772
- Guarantees issued	48,335	20,270
- Lending transactions	23,661	20,136
- Use of safe deposits	12,779	10,641
- Cash collection	9,968	7,020
- Other	3,929	2,512
Total commission income	**977,663**	**732,266**
Commission expense		
- Commissions for settlement services	360,694	269,922
- Commissions for payment processing	16,886	15,242
- Other	2,705	3,698
Total commission expense	**380,285**	**288,862**
Net commission income	**597,378**	**443,404**

(in Ukrainian Hryvnias and in thousands)

23. Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9

	For 12 months of 2021	For 12 months of 2020
Cash and cash equivalents	1,302	(1,039)
Loans and advances to banks	2,720	(868)
Loans and advances to customers	13,973	(12,363)
Investments in securities	(32,097)	(11,035)
Other financial assets	(4,958)	(478)
Loan commitments	(25)	(611)
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	**(19,085)**	**(26,394)**

24. Other operating income (expense)

	For 12 months of 2021	For 12 months of 2020
Other operating income		
Income from MasterCard on implementation of a joint marketing program	19,664	24,494
Income on de-recognition of financial liabilities	2,217	-
Income on leases	2,623	316
Other	2,457	1,304
Total other operating income	**26,961**	**26,114**
Other operating expense		
Expense on modification of financial instruments	(18,382)	(44,588)
Expense on de-recognition of financial liabilities	-	(163)
Total other operating expense	**(18,382)**	**(44,751)**
Total other operating income (expense)	**8,579**	**(18,637)**

25. Employee benefit expense

For the year ended 31 December 2021, employee benefit expense amounted to UAH 558,505 thousand (2020: UAH 471,736 thousand).

Included in employee benefit expense for 2021 was unified social contribution in the amount of UAH 73,421 thousand (2020: UAH 61,546 thousand).

(in Ukrainian Hryvnias and in thousands)

26. Other administrative and operational expense

	For 12 months of 2021	For 12 months of 2020
Maintenance of premises and equipment	149,899	90,219
Royalty	143,783	130,801
Communication, mail, and information systems	99,700	75,222
Contributions to Individual Deposit Guarantee Fund	35,377	27,180
Advertising and marketing services	26,540	23,477
Professional services	16,750	16,867
Security services	9,578	10,343
Utilities	9,571	5,896
Business trips	7,329	1,329
Other taxes and mandatory payments, other than income taxes	4,109	4,994
Expense on leases of low value underlying assets and short-term leases	3,929	2,238
Other	41,294	36,225
Total other administrative and operational expense	**547,859**	**424,791**

Included in royalty were monthly payments for using the trade mark of “Vlasnyi Rakhunok” to a related party – an entity under control of major shareholders in the amount of UAH 137,681 thousand (2020: UAH 127,759 thousand).

27. Tax expense (income)

Components of tax expense (income). Tax expense (income) recorded in profit or loss for the year comprised the following components:

	2021	2020
Current tax	62,851	33,056
Deferred tax	464	239
Tax expense (income)	**63,315**	**33,295**

(in Ukrainian Hryvnias and in thousands)

27. Tax expense (income) (continued)

Reconciliation between the tax expense and profit or loss multiplied by the applicable tax rate. The tax rate applicable to the Bank's income for 2021 was 18% (2020: 18%). Reconciliation between the expected and actual tax expenses is provided below.

	2021	2020
Profit (loss), before tax	**349,099**	**182,785**
Theoretical tax charges at the statutory tax rate	62,838	32,901
Tax effect of items which are not deductible or taxable:		
- Non-deductible expenses	924	585
- Income not recognized in financial accounting	(447)	(191)
Tax expense (income)	**63,315**	**33,295**

Deferred taxes analyzed by type of temporary differences. Differences between IFRS and statutory tax regulations in Ukraine give rise to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of movements in those temporary differences is detailed below, and is recorded at the rate of 18% (2020: 18%).

	1 January 2021	Credited to profit or loss	Recognized in other comprehensive income	31 December 2021
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	4,508	(464)	-	4,044
Expense accrued	-	-	-	-
Investments in securities	(1,758)	-	291	(1,467)
Net deferred tax assets	**2,750**	**(464)**	**291**	**2,577**
Deferred tax assets recognized	4,508	(464)	-	4,044
Deferred tax liabilities recognized	(1,758)	-	291	(1,467)
Net deferred tax assets	**2,750**	**(464)**	**291**	**2,577**

(in Ukrainian Hryvnias and in thousands)

27. Tax expense (income) (continued)

Tax effect of movements in temporary differences during the year ended 31 December 2020 is detailed below:

	1 January 2020	Credited to profit or loss	Recognized in other comprehensive income	31 December 2020
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	4,743	(235)	-	4,508
Expense accrued	4	(4)	-	-
Investments in securities	(2,253)	-	495	(1,758)
Net deferred tax assets	**2,494**	**(239)**	**495**	**2,750**
Deferred tax assets recognized	4,747	(239)	-	4,508
Deferred tax liabilities recognized	(2,253)	-	495	(1,758)
Net deferred tax assets	**2,494**	**(239)**	**495**	**2,750**

28. Financial risk management

The risk management function within the Bank is described in respect of financial risks, operating risks, and compliance risks. Financial risks comprise market risk, interest rate risk of bank book, credit risk, and liquidity risk. Primary objectives of the financial risk management function are to maintain the acceptable level of risk within the established risk appetite and other set limits and restrictions, ensure the capital adequacy to cover material risks, financial stability of the Bank and its development under the Strategic Plan of the Bank's Development and determined business model, improve the efficiency of capital management, and increase the value of the Bank's equity.

Risks are managed in an integrated manner and assessed in terms of the Bank's Risk Management Strategy and Risk Appetite Declaration, which are reviewed and approved by the Supervisory Board on an annual basis. The operating and compliance risk management functions are intended to ensure proper functioning of internal policies and procedures aimed at minimizing those risks.

The collegiate bodies responsible for risk management functions are represented by: the Supervisory Board, the Management Board, Assets and Liabilities Management Committee ("ALCO"), Credit Committee (for corporate and retail business and interbank operations), Operating Risk Management Committee ("ORMC"), and Tariff Committee.

28. Financial risk management (continued)

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those which are outside of the scope of the authority of the Management Board and other governing bodies (ALCO, ORMC, Tariff and Credit Committees).

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to overall asset, liability, and risk management to ALCO, ORMC, Credit Committee, and Tariff Committee.

ALCO coordinates work of all structural units of the Bank with the aim of implementing asset and liability management strategies, optimizing asset and liability structure, utilizing effectively and efficiently the Bank's credit resources, minimizing risks and achieving a sufficient profitability level. ALCO manages foreign currency risk, interest rate risk of a bank book, and liquidity risk.

Credit Committees and Commissions make and approve decisions on lending transactions within their respective authorities, as well as on other credit-related issues relating to corporate and retail customers and regarding setting up limits for the parties operating in interbank market (foreign exchange and money markets). They also make decisions on creating allowances for expected credit losses.

In the event the amount of lending operation or the total amount of the exposure of a customer (or a group of related parties) to the Bank, taking into account all off-balance sheet liabilities issued by the Bank in respect this customer (a group of related parties), as well as the transactions on assigning/acquiring claims on loans, exceeds the level of 10% of the Bank's regulatory capital, a decision regarding the transaction is subject to approval by the Management Board and the Supervisory Board.

Decisions to issue loans, guarantees, or sureties to related parties (other than banks) in the amount exceeding 1% of the regulatory capital (to individuals) or 3% of the regulatory capital (to legal entities) are made by the Management Board, subject to further approval by the Supervisory Board of the Bank.

Tariff Committee of the Bank acts with the aim of providing additional measures for risk management and optimization of the tariff policy regarding the Bank's products and services provided to the Bank's customers. Tariff Committee, within its area of responsibilities, performs monthly analysis of the ratios related to service costs and competitiveness of the Bank's tariffs in the market, and also is responsible for operating income policies.

During 2021, no changes occurred in risk management policies.

Credit risk. Credit risk represents the Bank's exposure to financial or additional losses or shortages in planned income as a result of failure by a borrower or counterparty to fulfill its contractual obligations. Credit risk exposure arises mainly from loans and advances granted and investment securities. For risk management reporting purposes, the Bank considers and consolidates all credit risk elements (such as a risk of failure of certain borrowers and counterparties to perform their obligations, as well as risks inherent to certain countries and industries).

28. Financial risk management (continued)

The Bank believes that its maximum credit risk exposure on financial assets is equal to the carrying value of those financial assets.

Credit risk management system in the Bank ensures for timely and adequate identifying, measuring, monitoring, reporting, controlling, and mitigating credit risk on both individual and collective bases.

In granting and supporting off-balance sheet loan commitments (obligations on unused loans and letters of credit) and guarantees, the Bank uses the same procedures for their considering, approving, and maintaining as for the loans granted.

A process for credit risk management is established in the following regulations of the Bank: the Bank’s Risk Management Strategies, the Bank’s Credit Policies and Credit Risk Management Policies, as well as methodologies and regulations determining the procedure for assessing a degree of credit risk of financial instruments and expected credit losses.

Key principles applied in the process of credit risk management include:

- Ensuring the balance of acceptable risk level and rate of return;
- Establishing risk appetite indicators for this type of risk;
- Assessing terms and conditions of a lending operation, including a collateral;
- Estimating and setting lending limits for borrowers/groups of the Bank’s related counterparties;
- Accrediting independent appraisers of collateralized properties of the Bank’s borrowers;
- Monitoring on a regular basis the availability and condition of collateral items;
- Assessing the Bank’s loan portfolio risks;
- Maintaining regular management reporting.

A process for credit risk management in the Bank consists of the following stages:

- Identifying risks – determining risk sources;
- Assessing risks – determining and assessing the extent of risks identified;
- Controlling risks – setting limits to the extent of acceptable risks;
- Monitoring risks – a process of consistent tracking of risk sources.

The Bank applies the following methods to manage its credit risk:

- Preventing risk before a transaction held;
- Planning a risk level through assessing the level of estimated losses;
- Limiting the credit risk by setting limits within the approved risk appetite;
- Creating provisions for covering possible losses on loans granted;
- Structuring agreements;
- Managing the adequacy of collateral on agreements;

28. Financial risk management (continued)

- Applying the system of authorities in making decisions;
- Identifying in a timely manner the assets that may potentially turn out to be non-performing through the implemented system of early warning;
- Conducting a consistent monitoring and control of the risk level.

To minimize the credit risk, the Bank also uses pledges and other types of collateral.

A decision on active operations with large corporate customers is made by the Bank's Credit Committees and Credit Commissions. In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial positions as reflected in their financial statements, their credit history, and the amount of risk involved in lending to a particular borrower.

In assessing risks associated with a particular borrower-legal entity or individual entrepreneur obtaining a loan for conducting business activities, the Bank takes into account the borrower's financial position, its solvency and payment abilities, market analysis, risks related to the industry in which the borrower operates, and market positions of the borrower's business, as well as factors such as the quality of its management, its geographic location, concentration of suppliers/customers, debt load, the liquidity of the proposed collateral, and whether it is sufficient in view of the credit risk.

The Bank assesses credit risk concentrations by portfolios of active operations taken as a whole and by individual components.

The Bank's Management Board has approved limits on active operations by industries and a range of loan products. As at 31 December 2021, all loan transactions were performed within the limits set.

Measuring expected credit losses on financial assets assessed on a collective basis. Assessment of credit risk for risk management purposes is comprehensive and requires using a certain model, since the exposure of credit risk changes depending on market condition developments, estimated cash flows, and time. The Bank assesses credit risk by using such indicators as probability of default (PD), exposure at default (EAD), and loss given default (LGD). In accordance with IFRS 9 "Financial Instruments" requirements, the Bank creates allowances for expected credit losses.

Expected credit losses on securities (including DGLBs) are measured within the general impairment model with reference to credit risk parameters.

In assessing whether a significant increase in credit risk has occurred since initial recognition, the Bank considers both quantitative and qualitative indicators. Qualitative indicators are determined separately depending on the type of financial assets (corporate, retail, interbank loans, securities, financial accounts receivable). One of the qualitative criteria performs a function of "backstop" indicator (number of days past due). The Bank uses a rebuttable presumption that a credit risk on the financial asset has increased significantly since initial recognition if the period of delays in contractual payments is in excess of 30 days.

28. Financial risk management (continued)

The Bank determines the availability of a significant increase in credit risk by individual loan agreements/tranches. Specifically, the Bank uses indicators (attributes) in respect of both customers taken as a whole and their assets in particular. As indicators (attributes) of a significant increase in credit risk, the Bank uses changes in indicators at the reporting date in respect of individual loan agreements/tranches compared to the date of initial recognition. The Bank uses the following indicators (attributes) in determining the availability of a significant increase in credit risk and including a financial instrument to Stage 2:

- For counterpart banks:
  - Amounts past due for more than 30 days;
  - Decreased external rating;
  - Available facts on the failure to meet the NBU’s ratios (not applicable when the NBU’s permits or remediation plans agreed with the NBU are available).
- For counterpart individuals:
  - Amounts past due for more than 30 days;
  - Delays in loan (interest) repayment/unauthorized overdrafts during recent 6 months;
  - Blocked current accounts.
- For counterpart legal entities:
  - Amounts past due for more than 30 days;
  - Significant increase in the ratio of debt to EBITDA;
  - Available information on legal claims of third parties to customers, management, or properties;
  - Blocked current accounts;
  - Violated significant terms and conditions of loan agreements (covenants);
  - Negative values of equity for 3 successive years;
  - Negative credit history;
  - Deteriorated Class by 3 and more positions, with the transfer to not higher than Class 6;
  - Significant decrease in monthly volumes on current accounts;
  - Other criteria evidencing on changes in the credit risk.
- For counterpart securities issuers:
  - Amounts past due on payments for more than 30 days;
  - Decreased external rating.

28. Financial risk management (continued)

The Bank uses one or a combination of indicators, together with own judgment, in determining the availability of a significant increase in credit risk depending on the available information, peculiarities of borrowers, their assets, etc.

The Bank considers the following as constituting an event of default for a financial asset or a group of financial assets (including a financial instrument to Stage 3):

- Significant financial difficulties of the borrower or issuer.
- A breach of contract such as a default or past due event regarding repayment of a principal or interest for more than 90 days. It should be noted that certain delays in debt repayment may not evidence of impairment. A decision on whether the asset has impairment indicators should be taken on the basis of additional information.
- Negative restructuring, i.e. granting benefits to a borrower due to economic or legal reasons related to the borrower's financial difficulties, which the Bank would not otherwise consider. Those benefits may be in the form of any lightened lending terms, e.g., loan extension, delays in loan repayments, interest capitalization, reduced original interest rate to the lower-than-market level, repossession of collateral or other assets as a partial repayment of the loan.
- The loss of an active market by the borrower.
- The failure in prerequisites for the credited project to be realized.
- Impairment of the collateral when the loan repayment is directly dependable on the collateral value.
- A high probability of the borrower to announce its bankruptcy or financial reorganization.
- Observable data about the decreased cash flows from the group (negative changes in the status of borrowers' repayments in the group or impact of economic conditions on fulfillment of obligations).
- Write off of one or several assets of the counterparty at the cost of an allowance.

The Bank uses both individual and collective assessments when determining expected credit losses.

As inputs for calculating expected credit losses, the Bank uses internal historical information in respect of defaults, recoveries received at default, expectations as to lives of financial instruments, periods of collateral sales, etc.

Calculation of allowance for expected credit losses on loans and advances to customers measured on an individual basis. The Bank assesses on an individual basis loans and advances to customers in respect of which indicators of significant increase in credit risk have been identified at the reporting date and which, by the total carrying value, are considered to be material. Loans to legal entities in respect of which default indicators have been identified (included to Stage 3) are mandatorily measured on an individual basis. The Bank may assess the remaining assets both on an individual basis based on its own judgment and on a collective basis by uniting them in groups of loans with similar credit risk parameters. The estimation of expected credit losses by each loan measured on an individual basis is performed based on discounted cash flows under several scenarios weighted for the probability of each scenario.

28. Financial risk management (continued)

The Bank considers several scenarios of repaying funds by a borrower under each individual financial asset and takes into account each of them even when a repayment of debt under the specific scenario is considered to be remote. The Bank considers the following standard scenarios for the recovery of loans:

- Independent repayment of loans in accordance with the current schedule;
- Independent repayment of loans at the cost of debt restructuring;
- Sale of the borrower's loans;
- Repayment of the borrower's loans at the cost of sale of a collateral under this loan;
- Write-off of the borrower's loans through creating allowances for this debt in full amounts.

In addition to the above scenarios, the Bank may consider customized scenarios.

In the course of analyzing future cash flows, the Bank considers all information available at the date of calculating the allowance that should be based on reasonable assumptions and forecasts that should be properly documented (substantiation of the expected cash flows, availability of the factors affecting the forecast, assumptions of the Bank, possible scenarios). The Bank determines a probability for exercising each scenario under the financial instruments measured on an individual basis, with reference to the available information about a borrower, current and forward-looking macroeconomic conditions, as well as the Bank's experience based on judgments and reasonable assumptions. The Bank uses all available and supportable information received without excessive efforts that may have an impact on the probability of one or several scenarios. Probabilities of scenarios are determined by applying expert judgments of the Bank's management or statistically, in the event a historical range of data is available.

The estimation of allowances for non-cancellable off-balance sheet liabilities and guarantees measured on an individual basis is performed on the same principles as for on-balance sheet financial instruments.

The only significant difference is the use of credit conversion factor (CCF) in determining gross carrying value at risk.

Calculation of allowance for expected credit losses on loans and advances to customers measured on a collective basis. The Bank unites the financial instruments measured at the reporting date on an individual basis into groups of financial assets with similar credit risk characteristics (e.g., based on type of a borrower, period of a delay, overdue period, currency of the asset, internal classification of loans that may consider loan term, industry, designated use, geographical location of the borrower, type of collateral, and other factors) and assesses the expected credit losses on a collective (portfolio) basis. The key inputs used for measuring ECLs are:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

28. Financial risk management (continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD (the Bank adjusts the determined value of probability of default according to the projected macroeconomic scenario).

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. LGD models for secured assets consider collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and time of recovery. LGD models for unsecured assets consider historical data about time of recovery and recovery rates.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as repayment in accordance with the contractual schedule, changes in utilization of undrawn commitments, and credit mitigation actions taken before default.

Incorporation of forward-looking information in respect of macroeconomic indicators. Expected credit losses are calculated with reference to expectations regarding changes in a range of macroeconomic indicators such as: inflation, exchange rate, GDP and unemployment rate. Indicators are selected and considered in models on the basis of the historical information analyzed in respect of the impact of changes on the level of credit risk for individual portfolios by customer segments and product types.

A projection of macroeconomic indicators has been developed by the Bank for the horizon of forecast of three years. In modelling the projection, the Bank has used both mathematical methods and assumptions and published data about future macroeconomic factors prepared by the National Bank of Ukraine, the Ministry of Economic Development and Trade, and the Ministry of Finance of Ukraine, and international financial institutions.

The tables below analyze information on significant changes in the gross carrying value of loans and advances to customers during the period, as well as movements in allowance for expected credit losses during 2021 and 2020. Movements in expected credit losses on loans and advances to banks, investments in securities measured at amortized cost, investments in securities measured at fair value through other comprehensive income, guarantees, and other loan commitments are insignificant for the purpose of these financial statements.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

Loans and advances to customers measured at amortized cost – changes in gross carrying value by Stages:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2020	**6,419,520**	**639,105**	**177,145**	**19,895**	**7,255,665**
New loans and advances to customers or originated loans	7,445,948	-	-	71,300	7,517,248
Transfer to Stage 1	17,980	(17,980)	-	-	-
Transfer to Stage 2	(80,724)	80,724	-	-	-
Transfer to Stage 3	-	(1,500)	1,500	-	-
Loans derecognized (repaid)	(5,180,385)	(69,639)	(19,102)	-	(5,269,126)
Written off and sold	-	-	(526)	-	(526)
Changes due to modification that has not resulted in de-recognition	(8,292)	157	(10,247)	-	(18,382)
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	(278,808)	(114,383)	7,349	3,561	(382,281)
31 December 2021	**8,335,239**	**516,484**	**156,119**	**94,756**	**9,102,598**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2019	**5,462,253**	**1,091,322**	**210,455**	**287**	**6,764,317**
New loans and advances to customers or originated loans	5,949,319	-	-	19,895	5,969,214
Transfer to Stage 1	176,041	(176,041)	-	-	-
Transfer to Stage 2	(290,723)	290,723	-	-	-
Transfer to Stage 3	-	(52,687)	52,687	-	-
Loans derecognized (repaid)	(4,658,656)	(572,381)	(84,311)	(287)	(5,315,635)
Written off and sold	-	-	(1,478)	-	(1,478)
Changes due to modification that has not resulted in de-recognition	(12,800)	(6,908)	(5,759)	-	(25,467)
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	(205,914)	65,077	5,551	-	(135,286)
31 December 2020	**6,419,520**	**639,105**	**177,145**	**19,895**	**7,255,665**

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

Loans and advances to customers measured at amortized cost – movements in allowance for expected credit losses by Stages:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2020	**7,497**	**97,033**	**134,100**	**(4,901)**	**233,729**
New loans and advances to customers or originated loans	25,793	-	-	-	25,793
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(18,058)	18,058	-	-	-
Transfer to Stage 3	-	(419)	419	-	-
Loans derecognized	(11,620)	(14,821)	(11,788)	-	(38,229)
Written off and sold	-	-	(526)	-	(526)
Effect of changes in models or risk parameters	(198)	22,214	(1,148)	6,788	27,656
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	5,226	(7,652)	(2,192)	(15,309)	(19,927)
31 December 2021	**8,640**	**114,413**	**118,865**	**(13,422)**	**228,496**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2019	**6,941**	**91,573**	**141,958**	**(9)**	**240,463**
New loans and advances to customers or originated loans	72,887	-	-	(4,901)	67,986
Transfer to Stage 1	60	(60)	-	-	-
Transfer to Stage 2	(65,948)	65,948	-	-	-
Transfer to Stage 3	-	(18,239)	18,239	-	-
Loans derecognized	(6,351)	(65,551)	(43,146)	9	(115,039)
Written off and sold	-	-	(1,478)	-	(1,478)
Effect of changes in models or risk parameters	37	19,276	3,276	-	22,589
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	(129)	4,086	15,251	-	19,208
31 December 2020	**7,497**	**97,033**	**134,100**	**(4,901)**	**233,729**

28. Financial risk management (continued)

To disclose changes in gross carrying value of loans and advances to customers during the period, as well as movements in allowance for expected credit losses during 2021 and 2020, all changes in gross carrying value and allowance for loans recognized during the reporting period are presented in line "New loans and advances to customers or originated loans" irrespective of the reason for the said changes.

As at 31 December 2021, undiscounted amount on the initial impairment of originated credit-impaired loans recognized on their initial recognition and not included in allowances amounted to UAH 23,052 thousand (31 December 2020: UAH 17,698 thousand).

The Bank does not disclose the effect of modification on financial assets measured at amortized cost or fair value through other comprehensive income in the form of a separate table, since the modification of financial assets that took place during 2021 and 2020 that resulted in the transfer of modified financial assets with lifetime expected credit losses to the category of financial assets with 12-month expected credit losses had no significant impact on the statement of comprehensive income, profit or loss.

Concentration risk. Concentration risk is determined by the Bank as a risk of possible losses due to concentration of the risk on particular instruments, individual transactions, and sectors of economy.

Concentrations of assets and liabilities by currencies, maturities, and geographical indicators are analyzed in relevant risk management policy sections.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of those limits in the event of more significant market movements. Overall authority for market risk is vested to ALCO.

Foreign currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Management monitors the Bank's currency positions in accordance with the regulations of the NBU and internally developed methodology.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2021.

				31 December 2021
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial assets	Net position
UAH	12,411,818	11,269,681	19,106	1,161,243
USD	5,669,692	5,742,246	-	(72,554)
EUR	1,050,473	1,050,742	-	(269)
Other currencies	59,426	30,779	-	28,647
Total	**19,191,409**	**18,093,448**	**19,106**	**1,117,067**

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2020.

				31 December 2020
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial liabilities	Net position
UAH	9,597,335	8,786,260	6,967	804,108
USD	5,183,194	5,133,335	-	49,859
EUR	1,221,265	1,215,704	-	5,561
Other currencies	26,369	24,193	-	2,176
Total	**16,028,163**	**15,159,492**	**6,967**	**861,704**

The above analysis includes only monetary financial assets and liabilities.

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

	31 December 2021		31 December 2020	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 10% (2020: strengthening by 10%)	(7,255)	(5,949)	4,986	4,089
USD weakening by 5% (2020: weakening by 5%)	3,628	2,975	(2,493)	(2,044)
EUR strengthening by 10% (2020: strengthening by 10%)	(27)	(22)	556	456
EUR weakening by 5% (2020: weakening by 5%)	13	11	(278)	(228)
Other currency strengthening by 10% (2020: strengthening by 10%)	2,865	2,349	218	179
Other currency weakening by 5% (2020: weakening by 5%)	(1,432)	(1,175)	(109)	(89)

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, profit or loss or the statement of changes in equity, while a positive amount reflects a net potential increase. The sensitivity was calculated only for monetary balances denominated in currencies, other than the functional currency of the Bank.

The above effect of changes in currency rates on the profit and equity relates to revaluation of open currency position only and does not take into account the potential decrease in credit quality of assets as a result of devaluation of Ukrainian Hryvnia.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event when unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

ALCO and Credit Committees are responsible for interest rate risk management, including minimum credit and maximum borrowing rates in respect of products, customer groups, and counterparties. Credit Committees are responsible for ensuring compliance with guidelines set by ALCO. At the same time, the corporate and retail business divisions recommend altering certain interest rates to ALCO subject to changes in market conditions or for internal reasons. Interest rate risk management is conducted using GAP analysis method, whereby the difference or gap between rate sensitive assets and rate sensitive liabilities is determined and analyzed.

As at 31 December 2021, most financial assets and liabilities of the Bank were issued/attracted at fixed interest rates. As at 31 December 2021, interest was accrued at floating interest rates on loans and advances to customers in the amount of UAH 1,843,818 thousand (31 December 2020: UAH 568,017 thousand), other borrowed funds in the amount of UAH 309,211 thousand (31 December 2020: UAH 372,653 thousand), and derivative financial assets on interest rate swaps (Note 31). The table below analyzes the sensitivity of interest rates on assets and liabilities at floating interest rates and investments in securities measured at fair value through other comprehensive income with variable rates of return as at 31 December 2021 and 2020:

	31 December 2021		**31 December 2020**	
	Interest rate +1	**Interest rate -1**	**Interest rate +1**	**Interest rate -1**
Impact on profit or loss, before tax				
Sensitivity of non-derivative financial assets	18,438	(18,438)	5,680	(5,680)
Sensitivity of non-derivative financial liabilities	(3,092)	3,092	(3,727)	3,727
Sensitivity of derivative financial instruments	9,890	1,882	(1,001)	(9,009)
Sensitivity of investments in securities measured at fair value through other comprehensive income	(47,383)	55,058	(43,455)	52,090
Net impact on profit or loss	**(22,147)**	**41,594**	**(42,503)**	**41,128**

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The Bank monitors nominal interest rates for its financial instruments. The table below summarizes weighted average nominal interest rates based on the reports reviewed by the Bank's key management personnel. The sign "-" in the table below means that the Bank does not have the respective assets or liabilities in the corresponding currency as at the reporting date:

	31 December 2021				**31 December 2020**			
	UAH	**USD**	**EUR**	**Other current-cies**	**UAH**	**USD**	**EUR**	**Other current-cies**
Non-derivative financial assets								
Cash and cash equivalents:								
Correspondent accounts with other banks	0.01%	0.01%	0.00%	0.03%	0.06%	0.01%	0.00%	0.00%
Loans and advances to banks	-	0.01%	-	-	0.00%	0.01%	0.00%	0.00%
Loans and advances to customers:								
Loans to legal entities	13.29%	6.33%	5.75%	-	13.94%	7.48%	6.31%	-
Loans to individuals	26.25%	-	-	-	26.73%	-	-	-
Investments in securities:								
Investments in securities measured at fair value through other comprehensive income	12.08%	3.55%	2.50%	-	14.28%	3.64%	2.45%	-
Investment in securities measured at amortized cost	8.95%	-	-	-	6.00%	-	-	-
Non-derivative financial liabilities								
Due to other banks	0.00%	1.49%	0.50%	0.00%	0.00%	2.29%	1.22%	0.00%
Customer accounts:								
Current accounts	3.40%	0.27%	0.00%	0.00%	2.93%	0.56%	0.01%	0.00%
Deposits	7.83%	2.35%	1.55%	-	6.35%	3.24%	1.69%	-
Lease liabilities	14.56%	6.31%	-	-	17.20%	6.70%	10.80%	-
Other borrowed funds	-	4.27%	-	-	-	4.27%	-	-
Subordinated debt	-	5.75%	-	-	-	7.00%	-	-
Derivative financial assets and liabilities								
Derivative financial assets	7.97%	-	-	-	5.25%	-	-	-
Derivative financial liabilities	6.50%	-	-	-	6.50%	-	-	-

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

Geographical risk concentration. Geographical concentration of the Bank’s financial assets and liabilities as at 31 December 2021 is set out below:

	Ukraine	OECD countries	Other countries	Total
Non-derivative financial assets				
Cash and cash equivalents	1,834,627	1,379,710	-	3,214,337
Loans and advances to banks	61,914	305,506	674	368,094
Loans and advances to customers	8,869,059	5,043	-	8,874,102
Investments in securities	6,144,168	159,428	6,568	6,310,164
Other financial assets	147,288	277,332	92	424,712
Total non-derivative financial assets	**17,057,056**	**2,127,019**	**7,334**	**19,191,409**
Non-derivative financial liabilities				
Due to other banks	14,511	-	30,285	44,796
Customer accounts	17,059,549	111,017	213,414	17,383,980
Lease liabilities	77,720	-	-	77,720
Other borrowed funds	-	309,211	-	309,211
Provisions for loan commitments and financial guarantee contracts	1,328	-	8	1,336
Other financial liabilities	65,070	4,457	86	69,613
Subordinated debt	206,792	-	-	206,792
Total non-derivative financial liabilities	**17,424,970**	**424,685**	**243,793**	**18,093,448**
Net position on non-derivative financial instruments	**(367,914)**	**1,702,334**	**(236,459)**	**1,097,961**
Net position on derivative financial instruments	**19,106**	**-**	**-**	**19,106**
Net position on derivative and non-derivative financial instruments	**(348,808)**	**1,702,334**	**(236,459)**	**1,117,067**

Financial assets and liabilities have been allocated based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held. OECD assets and liabilities mainly include balances with counterparties in the USA, Germany, the UK, and Austria. Non-OECD concentrations mainly represent balances with counterparties in Montenegro.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

Geographical concentration of the Bank's financial assets and liabilities as at 31 December 2020 is set out below:

	Ukraine	OECD countries	Other countries	Total
Non-derivative financial assets				
Cash and cash equivalents	1,399,777	1,874,457	-	3,274,234
Loans and advances to banks	702	183,879	-	184,581
Loans and advances to customers	7,021,930	5	1	7,021,936
Investments in securities	5,081,153	181,599	7,046	5,269,798
Other financial assets	7,763	269,762	89	277,614
Total non-derivative financial assets	**13,511,325**	**2,509,702**	**7,136**	**16,028,163**
Non-derivative financial liabilities				
Due to other banks	11,166	-	68,820	79,986
Customer accounts	14,202,355	207,052	80,900	14,490,307
Lease liabilities	59,947	-	-	59,947
Other borrowed funds	-	372,653	-	372,653
Provisions for loan commitments and financial guarantee contracts	1,311	-	-	1,311
Other financial liabilities	42,760	609	181	43,550
Subordinated debt	111,740	-	-	111,740
Total non-derivative financial liabilities	**14,429,279**	**580,314**	**149,901**	**15,159,494**
Net position on non-derivative financial instruments	**(917,954)**	**1,929,388**	**(142,765)**	**868,669**
Net position on derivative financial instruments	**(6,967)**	**-**	**-**	**(6,967)**
Net position on derivative and non-derivative financial instruments	**(924,921)**	**1,929,388**	**(142,765)**	**861,702**

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and loan issuing. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Assets and Liabilities Management Committee of the Bank.

28. Financial risk management (continued)

The Bank seeks to maintain a stable funding base primarily consisting of corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. Treasury Department then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments, including deposits and contributions by shareholders. This enhances funding flexibility, limits dependence on any one source of funds, and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Deposits from customers and banks generally have short maturity and a large portion of them is repayable on demand. The short-term nature of these deposits increases the Bank’s liquidity risk, and the Bank actively manages the risk through competitive pricing and constant monitoring of market trends.

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of Ukraine.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by Treasury Department.

The table below shows liabilities as at 31 December 2021 and 2020 by their remaining contractual maturities. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position because the amounts in the statement of financial position are based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rates at the end of the reporting period.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The maturity analysis of financial liabilities as at 31 December 2021 and 2020 based on undiscounted cash flows for financial liabilities was as follows:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
31 December 2021					
Due to other banks	31,430	-	13,366	-	44,796
Customer accounts	13,598,195	1,692,130	1,654,151	565,931	17,510,407
Lease liabilities	6,170	9,511	32,140	39,708	87,529
Other borrowed funds	-	16,604	49,257	294,025	359,886
Provisions for loan commitments and financial guarantee contracts	1,336	-	-	-	1,336
Other financial liabilities	69,613	-	-	-	69,613
Subordinated debt	1,321	2,028	9,454	288,249	301,052
Irrevocable loan commitments	140,122	-	-	-	140,122
Guarantees issued	2,087,935	-	-	-	2,087,935
Avals payable	152,448	-	-	-	152,448
Letters of credit payable	27,314	-	-	-	27,314
Total potential future payments on financial liabilities and loan commitments as at 31 December 2021	**16,115,884**	**1,720,273**	**1,758,368**	**1,187,913**	**20,782,438**

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
31 December 2020					
Due to other banks	69,973	400	9,613	-	79,986
Customer accounts	12,051,894	770,168	1,504,837	232,077	14,558,976
Lease liabilities	5,658	9,194	34,189	16,994	66,035
Other borrowed funds	-	17,794	52,854	373,073	443,721
Provisions for loan commitments and financial guarantee contracts	1,311	-	-	-	1,311
Other financial liabilities	43,548	-	-	-	43,548
Subordinated debt	540	1,280	5,965	150,740	158,525
Irrevocable loan commitments	64,406	-	-	-	64,406
Guarantees issued	917,288	-	-	-	917,288
Avals payable	70,236	-	-	-	70,236
Total potential future payments on financial liabilities and loan commitments as at 31 December 2020	**13,224,854**	**798,836**	**1,607,458**	**772,884**	**16,404,032**
Derivative financial liabilities	184	1,068	3,742	8,532	13,526
Total potential future payments on derivative financial liabilities as at 31 December 2020	**184**	**1,068**	**3,742**	**8,532**	**13,526**
Total potential future payments on financial liabilities and loan commitments as at 31 December 2020	**13,225,038**	**799,904**	**1,611,200**	**781,416**	**16,417,558**

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement.

Current accounts and due to other banks are due on demand and have been reflected as “On Demand and Less Than 1 Month” in these schedules. However, management estimates that demand on a majority of the accounts will occur at a significantly later date.

Deposits are classified in the above analysis based on contractual maturities. According to the Ukrainian Civil Code amendments adopted during 2015, individuals have a right to withdraw their term deposits prior to maturity only in the cases where it is stipulated in the contract of bank term deposit.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarized as follows as at 31 December 2021:

	On demand and less than 1 month	**1-3 months**	**3-12 months**	**Over 12 months**	**Total**
Non-derivative financial assets					
Cash and cash equivalents	3,214,337	-	-	-	3,214,337
Loans and advances to banks	971	61,216	305,814	93	368,094
Loans and advances to customers	820,589	1,972,249	4,202,058	1,879,206	8,874,102
Investments in securities	1,731,697	2,135,207	1,424,470	1,018,790	6,310,164
Other financial assets	11,283	147,359	-	266,070	424,712
Total non-derivative financial assets	**5,778,877**	**4,316,031**	**5,932,342**	**3,164,159**	**19,191,409**
Derivative financial assets		-	536	18,570	19,106
Total financial assets	**5,778,877**	**4,316,031**	**5,932,878**	**3,182,729**	**19,210,515**
Non-derivative financial liabilities					
Due to other banks	31,430	-	13,366	-	44,796
Customer accounts	13,591,611	1,669,831	1,620,199	502,339	17,383,980
Lease liabilities	6,142	9,321	29,987	32,270	77,720
Other borrowed funds	-	13,359	38,723	257,129	309,211
Provisions for loan commitments and financial guarantee contracts	1,336	-	-	-	1,336
Other financial liabilities	69,613	-	-	-	69,613
Subordinated debt	858	-	-	205,934	206,792
Total non-derivative financial liabilities	**13,700,990**	**1,692,511**	**1,702,275**	**997,672**	**18,093,448**
Total financial liabilities	**13,700,990**	**1,692,511**	**1,702,275**	**997,672**	**18,093,448**
Net liquidity gap as at 31 December 2021	**(7,922,113)**	**2,623,520**	**4,230,603**	**2,185,057**	**1,117,067**
Cumulative liquidity gap as at 31 December 2021	**(7,922,113)**	**(5,298,593)**	**(1,067,990)**	**1,117,067**	
Loan commitments					
Irrevocable loan commitments	140,122	-	-	-	140,122
Guarantees issued	2,087,935	-	-	-	2,087,935
Avals payable	152,448	-	-	-	152,448
Letters of credit payable	27,314	-	-	-	27,314
Cumulative liquidity gap as at 31 December 2021, including loan commitments	**(10,329,932)**	**(7,706,412)**	**(3,475,809)**	**(1,290,752)**	

28. Financial risk management (continued)

As at 31 December 2021, the Bank had a significant cumulative liquidity gap on financial assets and liabilities up to 12 months in the amount of UAH 3,475,810 thousand. This liquidity gap arises from the fact that an important source of funding for the Bank are customer funds on current accounts. Management believes that a significant volume and stable growth of the customer base and the past experience of the Bank indicate that most customer accounts provide a long-term and stable source of funding for the Bank. The minimum balance of customer funds during 2021 and 2020 amounted to not less than UAH 13,472,252 thousand and UAH 8,877,065 thousand, which was 77% and 61% of total customer accounts, respectively. In addition, as at 31 December 2021:

- The Bank had investments in securities measured at fair value through other comprehensive income with the contractual maturity over 12 months in the amount of UAH 1,018,790 thousand that may be sold by the Bank in the case of need;
- Due to other banks included correspondent accounts obtained from a related party (an entity under common control) in the amount of UAH 28,165 thousand (Note 33) which, if needed, may be extended for a respective period.

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The liquidity position of the Bank as at 31 December 2020 is set out below:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Non-derivative financial assets					
Cash and cash equivalents	3,274,234	-	-	-	3,274,234
Loans and advances to banks	-	-	184,581	-	184,581
Loans and advances to customers	838,357	1,082,162	3,315,811	1,785,606	7,021,936
Investments in securities	3,501,497	446,584	431,099	890,618	5,269,798
Other financial assets	15,529	-	37	262,048	277,614
Total non-derivative financial assets	**7,629,617**	**1,528,746**	**3,931,528**	**2,938,272**	**16,028,163**
Non-derivative financial liabilities					
Due to other banks	69,973	400	9,613	-	79,986
Customer accounts	12,169,627	713,941	1,390,488	216,251	14,490,307
Lease liabilities	5,625	8,955	31,241	14,126	59,947
Other borrowed funds	-	13,875	39,982	318,796	372,653
Provisions for loan commitments and financial guarantee contracts	1,311	-	-	-	1,311
Other financial liabilities	43,550	-	-	-	43,550
Subordinated debt	540	-	-	111,200	111,740
Total non-derivative financial liabilities	**12,290,626**	**737,171**	**1,471,324**	**660,373**	**15,159,494**
Derivative financial liabilities	-	-	-	6,967	6,967
Total financial liabilities	**12,290,626**	**737,171**	**1,471,324**	**667,340**	**15,166,461**
Net liquidity gap as at 31 December 2020	**(4,661,009)**	**791,575**	**2,460,204**	**2,270,932**	**861,702**
Cumulative liquidity gap as at 31 December 2020	**(4,661,009)**	**(3,869,434)**	**(1,409,230)**	**861,702**	
Loan commitments					
Irrevocable loan commitments	64,406	-	-	-	64,406
Guarantees issued	917,288	-	-	-	917,288
Avals payable	70,236	-	-	-	70,236
Cumulative liquidity gap as at 31 December 2020, including loan commitments	**(5,712,939)**	**(4,921,364)**	**(2,461,160)**	**(190,228)**	

(in Ukrainian Hryvnias and in thousands)

28. Financial risk management (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. A mismatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

29. Capital management

The Bank’s objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine and (ii) to safeguard the Bank’s ability to continue as a going concern. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as at 31 December 2021 was UAH 1,318,397 thousand (31 December 2020: UAH 1,031,776 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank’s Chairperson of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Bank’s policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

Under the current capital requirements set by the National Bank of Ukraine, banks should maintain a ratio of regulatory capital to risk weighted assets (“capital adequacy ratio”) above a prescribed minimum level. As at 31 December 2021, the minimum level required by the NBU was 10% (31 December 2020: 10%). The table below demonstrates the regulatory capital based on the Bank’s reports prepared under regulatory requirements of the NBU, before adjustments for the year, and comprises the following components:

	31 December 2021	31 December 2020
Core capital	981,038	840,644
Additional capital	556,838	287,364
Total regulatory capital	**1,537,876**	**1,128,008**

As at 31 December 2021 and 2020, the Bank complied with the statutory values of capital adequacy set by the NBU.

Compared to the previous year, there were no changes in objectives, policies, and processes of the Bank regarding capital management.

30. Contingencies and other commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received from third parties. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in these financial statements.

Taxation. Ukraine's tax environment is characterized by complexity in tax administering, arbitrary interpretation by the tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and those amounts could be material. Facing current economic and political issues, the Government considers implementing certain reforms in the tax system of Ukraine.

On 23 May 2020, the new anti-BEPS Law entered into force, which significantly changed the Ukrainian Tax Code, introducing a significant portion of BEPS (Base Erosion and Profit Shifting) Action plan steps to the local tax legislation.

In late 2021, the Verkhovna Rada of Ukraine adopted the Draft Law # 5600 on Amending the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Aimed at Ensuring Balanced Fiscal Revenue, which shall be effective from 1 January 2022. Among other changes, the new Law has introduced:

- Restriction on the utilization of tax losses. Effective from 2022, tax loss carry forwards for large taxpayers are limited to 50% of losses reported in the previous year. Unused tax losses are permitted to use in future period with 50% limit until they are fully utilized. However, if tax loss carried forward from previous years does not exceed 10 percent of taxable profit for the reporting period, the taxpayer may reduce the amount of profit/loss before tax for this tax (reporting) period in full. The restriction applies to large taxpayers.
- The timeframe for including VAT amounts in VAT input is significantly reduced. The period during which the taxpayers have the right to include VAT amounts in VAT input is reduced from 1,095 days to 365 days.

The further amendment of anti-BEPS Law is expected, which would allow adjusting some of its provisions, which quickly became controversial and rather fiscal for Ukrainian companies. However, most of the previous attempts to amend the Law have failed and, therefore, it is not possible to assess the probability of its further amendment.

On 15 March 2022, the Verkhovna Rada of Ukraine adopted the Draft Law # 7137-д "On Amending the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period". The regulations are effective from the announcement and are expected to remain in effect while the martial law is in force in Ukraine.

30. Contingencies and other commitments (continued)

Among other changes, the new Law has introduced:

- No penalties should apply for failure to pay taxes and duties or file tax returns and reports, where circumstances mean taxpayers are prevented from compliance (except for declaring a single tax at 2%), registration of tax or excise invoices in the relevant registers in the absence of the ability to file them. Taxpayers should bring their affairs up to date, e.g., pay the taxes and file the returns, within three months after the martial law is lifted.
- Until the martial law is terminated or cancelled, no new tax audits should be initiated and ongoing tax audits will be suspended. However, exceptions apply to desktop (i.e., virtual) audits to confirm VAT refunds and audits aimed at verification of cash handling procedures and compliance with the labor legislation, which will continue during the martial law.
- Excise duty on fuel has been cancelled, and VAT rate for fuel imports has been decreased from 20% to 7%.
- Corporate income taxpayers and individual entrepreneurs (with annual turnover up to UAH 10 billion and regardless of their number of employees) may elect to be subject temporarily to the 2% unified tax in lieu of corporate income tax as from 1 April 2022 and while the martial law is in force. The unified tax will be calculated based on annual income without regard to expenses or other deductions. Companies that register for the unified tax are also relieved of the requirement to accrue, pay VAT, and submit VAT tax returns on their supplies. As such, the unified tax effectively replaces both corporate income tax and VAT. Carried forward tax losses and amount of interest accrued under thin capitalization rule may be transferred to the future periods when the taxpayer would restore as a corporate income taxpayer.
- VAT administration is simplified during the martial law period, with taxpayers being allowed to claim input VAT without receiving VAT invoices. At the same time, within six months after the termination or abolition of the martial law, taxpayers are required to ensure the registration of tax invoices.
- Failure by the state to conduct budget reimbursement of VAT in connection with the imposition of the martial law is not considered as an indebtedness, i. e. a penalty on such amounts is not accrued. As such, the process of VAT reimbursement may be significantly complicated.
- Goods purchased with VAT and lost or destroyed or transferred to the state or municipal ownership for the needs of ensuring the defense of Ukraine during the martial law are not considered as used in non-taxable transactions or non-business activities, so no VAT liability should be accrued.
- The transfer of goods and services to be used for the benefit of the military defense of Ukraine will not be subject to VAT.
- Landowners are exempt from paying land tax and land rent in the areas where active hostilities are taking place or temporarily occupied territories, or littered with explosive objects for the period from March 2022 to 31 December of the year following the year in which the martial law is cancelled.

(in Ukrainian Hryvnias and in thousands)

30. Contingencies and other commitments (continued)

At the same time, on 12 May 2022, the Verkhovna Rada of Ukraine adopted the Draft Law № 7360 “On Amending the Tax Code of Ukraine and Other Legislative Acts on the Peculiarities of Tax Administration of Taxes, Duties, and Unified Tax Contributions during the Martial Law Period”, which includes significant amendments to the previously adopted legislation on tax administration during the martial law period. On 25 May 2022, the Law was signed by the President of Ukraine and came into force. According to the Law, the obligation to pay taxes, register tax invoices, and submit reports for the taxpayers which are able to fulfill this obligation in a timely manner is restored, the tax authorities’ right to conduct the unscheduled documentary audits has been restored, and penalties as a result of tax audits may now be applied. The moratorium on the penalties imposed as a part of COVID-19 restrictions is cancelled.

Management believes that the Bank has been in compliance with all requirements of the effective tax legislation.

Loan commitments. The primary purpose of these instruments is to ensure that funds are available to a customer to satisfy its financial needs.

Outstanding loan commitments were as follows:

	31 December 2021	31 December 2020
Guarantees issued	2,087,935	917,288
Avals payable	152,448	70,236
Irrevocable loan commitments	140,122	64,406
Letters of credit payable	27,314	-
Less: Provision in the form of cash deposit	(300,805)	(43,376)
Total loan commitments, less provisions in the form of cash deposits	**2,107,014**	**1,008,554**

As at 31 December 2021 and 2020, the allowance for expected credit losses on loan commitments amounted to UAH 1,336 thousand and UAH 1,311 thousand, respectively.

The Bank had outstanding Irrevocable loan commitments in respect of overdrafts on card accounts of individuals. All other commitments to extend loans are revocable. With respect to credit risk on commitments to extend loans, the Bank is potentially exposed to loss in the amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments, since most commitments to extend loans are contingent upon customers maintaining specific credit standards.

Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The total outstanding contractual amount of undrawn guarantees does not necessarily represent future cash requirements, as those financial instruments may expire or terminate without being funded.

(in Ukrainian Hryvnias and in thousands)

30. Contingencies and other commitments (continued)

As at 31 December 2021 and 2020, loan commitments were neither past due nor impaired. Loan commitments by stages of impairment were as follows:

	31 December 2021	31 December 2020
Stage 1	2,406,732	1,051,440
Stage 2	983	336
Stage 3	104	154
Total	**2,407,819**	**1,051,930**

Assets pledged and restricted in use. The Bank had assets pledged as a collateral or otherwise restricted with the following gross carrying value:

	31 December 2021	31 December 2020
Loans and advances to customers used as a collateral under other borrowed funds (before allowance for expected credit losses)	622,842	639,338
Guarantee coverage within the payment systems of Visa and Master Card (before allowance for expected credit losses)	270,104	262,133
Funds placed with other banks that are used as a guarantee coverage	368,161	184,068
Investments in securities measured at fair value through other comprehensive income used as a guarantee fund for interest rate swaps with the NBU	49,775	52,206
Total	**1,310,882**	**1,137,745**

Gross carrying value of the assets used as a collateral under the borrowing received from WORLDBUSINESS CAPITAL INC. (Notes 9 and 17) that secure for fulfillment of obligations amounted to UAH 622,842 thousand as at 31 December 2021 (31 December 2020: UAH 639,338 thousand), with the actual amount of the collateral to be transferred to WORLDBUSINESS CAPITAL INC. in the event of failure to fulfill obligations as at 31 December 2021 amounting to UAH 420,382 thousand (31 December 2020: UAH 493,088 thousand).

During 2021, the Bank performed transactions with derivative financial instruments under foreign currency agreements and derivative financial instruments in the form of overnight index interest rate swaps.

31. Derivative financial instruments

Derivative financial instruments under foreign currency agreements entered into by the Bank mainly related to trading in over-the-stock market between professional market participants on the basis of standardized contracts. Derivative financial instruments have potentially favorable terms (i.e. are assets) or potentially unfavorable terms (i.e. are liabilities) due to fluctuations of interest rates in the market, exchange rates, or other variables related to those instruments. Total fair value of derivative financial instruments may significantly change from time to time.

Fair value of derivative financial instruments is determined at a forward exchange rate calculated using the current exchange rates in SPOT market at the date of fair value measurement; interest rates in the quoting currency and the quotation base for the relevant period by the date of a contract fulfillment year to year; the number of calendar days that remained to the contract's fulfillment; calendar base for calculating interest rates by quotation currencies and quotation bases.

As a SPOT exchange rate in transactions with derivative financial instruments on purchase and sale of foreign currencies for national currency, the Bank uses the current exchange rate of a relevant foreign currency against UAH in FOREX market at about 12.00 Kyiv time or first hours close to it applied by calculations in the same business day or the NBU's indicative. The exchange rate is expressed by UAH amount per one unit of foreign currency.

To determine a SPOT exchange rate in performing transactions with derivative financial instruments on purchase and sale of foreign currencies for another foreign currency, the Bank uses current exchange rates of one currency against another currency established by market exchange rates at about 12:00 Kyiv time in the international market (under the data of REUTERS).

Interest rates by quotation currencies and quotation bases are determined by the Bank as follows:

- For UAH, KIEBOR rate with the period depending on the number of days to a transaction fulfillment. KIEBOR (Kyiv Interbank Offered Rate) is a weighted average interest rate on interbank loans, which is calculated by the Association of Ukrainian Banks in cooperation with Reuters news agency. The values of all components of the KIEIBOR index are published on the pages in REUTERS terminal.
- For foreign currencies (USD, EUR, GBP, etc.), LIBOR rate with the period depending on the number of days to a transaction fulfillment. LIBOR (London Interbank Offered Rate) is a weighted average interest rate on interbank loans (updated on a daily basis at 13:30).

Interest rate swap is an over-the-counter derivative, a non-standardized contract entered into between two parties according to which the parties exchange contingent contracts that are equal by amounts and have similar maturity dates and interest payment dates, under which one party pays the interest accrued on the amount of the contingent contract at a fixed interest rate, and the other – at a floating interest rate, which is determined based on the index of overnight interest rates.

Fair values of interest rate swaps entered into with the National Bank of Ukraine are determined by the Bank by using the interest rate swap model as a combination of two bonds considering the following:

- Fair value of the bond with a floating coupon rate, the nominal value of which is equal to a contingent amount, and the coupon rate – to a floating interest rate determined on the terms and conditions of interest rate swap transaction;

(in Ukrainian Hryvnias and in thousands)

31. Derivative financial instruments (continued)

- Cash flows on the bond with a fixed coupon rate, which includes the coupon amount at each date of payment calculation in accordance with the terms and conditions of interest rate swap transaction, and the nominal value of a bond at the recent date of payment calculation in accordance with the terms and conditions of interest rate swap transaction;
- Period to the date of payment calculation in accordance with the terms and conditions of interest rate swap transaction;
- Fixed interest rate established by the NBU in conducting active operations with commercial banks of Ukraine at the date of calculation;
- Floating interest rate.

Fair values of due under interest rate swap agreements entered into by the Bank as at 31 December 2021 are provided in the table below. The table includes contracts to be settled after the reporting date; with the amounts under those contracts shown gross – before offsetting positions (and payments) on each counterparty. These contracts are long-term by nature.

As at 31 December 2021, fair values of due under interest rate swap agreements were as follows:

		31 December 2021
	Contracts with positive fair value	**Contracts with negative fair value**
Interest rate swap		
- Contract amount under exchange rate of the agreement	400,390	-
- Contract amount at fair value	419,496	-
Net fair value of interest rate swap agreement	**19,106**	**-**

In 2021, the Bank reported profits on derivative financial instruments in the amount of UAH 11,365 thousand (2020: profits in the amount of UAH 2,291 thousand) in the statement of comprehensive income, profit or loss.

As at 31 December 2020, fair values of due under interest rate swap agreements were as follows:

		31 December 2020
	Contracts with positive fair value	**Contracts with negative fair value**
Interest rate swap		
- Contract amount under exchange rate of the agreement	-	400,390
- Contract amount at fair value	-	393,423
Net fair value of interest rate swap agreement	**-**	**(6,967)**

(in Ukrainian Hryvnias and in thousands)

32. Fair value of financial instruments

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

	31 December 2021			31 December 2020		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Investments in securities measured at fair value through other comprehensive income						
Government debt securities of Ukraine	4,386,998	-	4,386,998	1,543,122	-	1,543,122
Municipal debt securities of Ukraine	-	25,748	25,748	-	36,885	36,885
Debt securities issued by foreign governments	165,997	-	165,997	188,644	-	188,644
TOTAL FINANCIAL ASSETS MEASURED AT FAIR VALUE	**4,552,995**	**25,748**	**4,578,743**	**1,731,766**	**36,885**	**1,768,651**

Valuation techniques and key inputs used for determining fair values of investments in securities measured at fair value through other comprehensive income are based on the use of quoted bid prices of the said securities in the active market. As at 31 December 2021 and 2020, there were no transfers between levels of the fair value hierarchy.

Non-recurring fair value measurements. The Bank had no respective balances as at the reporting date.

Financial instruments not measured at fair value but for which fair value disclosure is required. Management believes that the carrying values of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

(in Ukrainian Hryvnias and in thousands)

33. Related party transactions

The Bank grants loans, attracts deposits, and performs other transactions with related parties in the ordinary course of business. Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Terms and conditions of transactions with related parties are established at the time of the transaction. Related parties comprise major shareholders, entities under control of major shareholders, members of the Supervisory Board and the Management Board, and their immediate family members.

As at 31 December 2021, the outstanding related party balances were as follows:

	Major shareholders and their family members	**Entities under control of major shareholders**	**Key management personnel and their family members**	**Other related parties-individuals**
Loans and advances to customers	3	41,893	188	-
Right-of-use assets	4	-	2	-
Other financial and non-financial assets	9	963	4	1
Due to other banks	-	28,165	-	-
Customer accounts	84,939	229,430	25,318	2,140
Subordinated debt	206,792	-	-	-
Lease liabilities	4	-	2	-
Other financial and non-financial liabilities	9,250	13,203	983	-
Loan commitments	99	8,890	681	-

Other related parties-individuals are represented by shareholders of the entities under control of major shareholders who may have an influence on business decisions of the Bank’s shareholders.

As at 31 December 2021, the Bank had obligations payable to key management personnel and major shareholders in the form of a provision for unused vacations in the amount of UAH 10,233 thousand (31 December 2020: UAH 7,668 thousand).

(in Ukrainian Hryvnias and in thousands)

33. Related party transactions (continued)

Income and expense items on related party transactions for the year ended 31 December 2021 were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties-individuals
Interest income	161	4,518	47	-
Interest expense	(12,986)	(26,867)	(938)	(13)
Commission income	1,095	71,892	462	239
Commission expense	-	(12,037)	-	-
Gains/(losses) on modification and de-recognition of financial instruments	2	(150)	-	-
Net increase (decrease) from foreign exchange translation	-	458	-	-
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	(34)	-	-
Employee benefit expense	(156,805)	-	(17,473)	-
Other administrative and operating expense	(694)	(154,759)	(925)	-

In 2021, the Bank recognized a positive result of adjustment of the subordinated debt attracted from the Bank's shareholders at the date of its initial recognition and modification in the Bank's capital in the amount of UAH 10,653 thousand.

Remuneration to key management personnel (the Management Board) and the Supervisory Board for the year ended 31 December 2021 included short-term employee benefits that included salary and bonuses payable in cash amounting to UAH 134,979 thousand (2020: UAH 121,609 thousand). Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered relevant services.

As at 31 December 2020, the outstanding related party balances were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties-individuals
Loans and advances to customers	-	74	52	-
Right-of-use assets	77	-	1	-
Other financial and non-financial assets	6	558	5	1
Due to other banks	-	32,455	-	-
Customer accounts	113,484	357,227	29,081	1,233
Subordinated debt	111,740	-	-	-
Lease liabilities	3	-	1	-
Other financial and non-financial liabilities	6,608	15,844	1,060	-
Loan commitments	112	2,262	699	-

33. Related party transactions (continued)

Income and expense items on related party transactions for the year ended 31 December 2020 were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties-individuals
Interest income	4	9,933	69	-
Interest expense	(14,887)	(48,226)	(1,193)	(8)
Commission income	1,266	58,359	417	322
Commission expense	-	(14,804)	-	-
Gains/(losses) on modification and de-recognition of financial instruments	6	(191)	-	-
Net increase (decrease) from foreign exchange translation	-	499	-	-
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	(8)	-	-
Employee benefit expense	(136,650)	-	(17,903)	-
Other administrative and operating expense	(387)	(138,644)	(720)	-

34. Events after the reporting period

On 24 February 2022, russia started its military invasion to the territory of Ukraine. Many Ukrainian cities suffered a substantial damage as a consequence of the continuous missile and shell attacks, resulting in thousands of deaths and injuries, including among civilians.

On 24 February 2022, the NBU's Board adopted Resolution "On Operation of the Banking System under the Martial Law". The Resolution has imposed temporary restrictions effective from 24 February 2022, such as: set limits on cash withdrawals from customer accounts (UAH 100 thousand per day) and cash withdrawals from foreign currency denominated customer accounts (UAH 100 thousand per day) (excluding salaries and other obligatory social benefits), limitations on foreign currency exchange operations, fixed foreign exchange rate as at 24 February 2022, prohibited distribution of dividends, etc. Those restrictions are gradually being softened starting from April 2022.

A range of measures aimed at stabilizing the banking system on behalf of the NBU have included, inter alia, granting refinancing loans to banks for the period of up to one year to support the banking system's liquidity. On 25 February 2022, the Bank received a refinancing loan from the NBU in the amount of UAH 1,000,000 thousand. As at the date these financial statements were authorized for issue, the Bank early repaid the amount of UAH 700,000 thousand.

34. Events after the reporting period (continued)

As at the date these financial statements were authorized for issue, the Bank had a remote access to all the critical functions that ensured the continuous support to all operating processes. The Bank continues operating, with reference to the restrictions imposed nationally.

The Bank's efforts are aimed at minimizing risks to life and health of its employees and customers, therefore, the Bank has been obliged to suspend operations of a part of its branches and services in some of its ATMs. The Bank ensures the continuous operations of its branches in the conditions when there is no threat to life and health of people and employees of the Bank. The number of opened branches during September was in the range from 34 to 36 branches out of 38 branches as at 31 December 2021. The Bank does not reduce the number of its employees during the martial law. The Bank has arranged for granting a temporary shelter to all employees who have wished to leave the areas of active military actions. Other events after the reporting period are also disclosed in Note 2.

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К. 26237202 УКРАЇНА м. ДНІПРО

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

1. General information about the Bank

1.1. Nature of business

PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank") was established on 23 April 2002 and registered by the National Bank of Ukraine (the "NBU") on 17 October 2002 as Closed Joint Stock Company "Agrobank". PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" is a legal successor of all rights and obligations of PUBLIC JOINT STOCK COMPANY "HOME CREDIT BANK" and Closed Joint Stock Company "Agrobank" established on the basis of the decision of the constituent founders' meeting dated 23 May 2002 (Minutes No. 1) in accordance with the Constituent Agreement dated 23 April 2002, Registration Certificate issued by the National Bank of Ukraine No. 283 dated 17 October 2002.

1	Full name of the Bank in Ukrainian	ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК»
2	Shortened named (used when conducting operations)	ПАТ «БАНК ВОСТОК»
3	Name in English	PUBLIC JOINT STOCK COMPANY "BANK VOSTOK"
4	Date of the state registration	17 October 2002
5	Registration number	12241050010009991
6	Location of the Bank	24 Kursantska Street, Dnipro, 49051, Ukraine
7	Amount of the Bank's paid-in Issued capital as at 31 December 2021	UAH 983,950,290

The Bank is engaged in banking activities by rendering banking and financial services on the basis of the banking license entered in the State Register of Banks on the Right of a Legal Entity to Carry out Banking Activities No. 204 dated 17 October 2002. In addition to banking and financial services, the Bank is also engaged in other activities as defined in Article 47 of the Law of Ukraine "On Banks and Banking".

The Bank's policies presuppose rendering a broad range of banking services that are based on quality and corporate identity of services and trust-based relationships of partnership with customers. For the years of its operations, the Bank has successfully displayed its economic and management potential in ensuring a stable growth in financial performance, shaping a stable business reputation among customers and business partners, and strengthening a competitive ability in the market of banking services.

In 2021, the Bank did not purchase any shares. During 2021, the Bank did not repurchase its treasury shares.

The Bank's registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank's Head Office units are located at: 1b Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine. In particular, based on the banking license, the Bank has the right to render banking and other financial services (other than insurance services) and conduct other activities as defined in Art. 47 of the Law of Ukraine "On Banks and Banking" in both national and foreign currencies.

In accordance with the legislation of Ukraine, the Bank provides to its customers the following financial services:

- Trade in currency valuables;
- Attract financial assets with obligation of their subsequent return;
- Finance leases;
- Lend funds, including on financial lending terms;
- Issue guarantees;
- Transfer funds;
- Conduct professional activities in the capital market;
- Conduct factoring operations;
- Provide other financial services in accordance with the effective legislation of Ukraine.

In addition, the Bank is also entitled to perform the following activities:

- Make investments;
- Issue own securities;
- Store valuables (including accounting for and storing securities and other valuables confiscated (arrested) in profit of the state and/or recognized as ownerless) or rent individual banking safes;
- Collect cash and transfer currency valuables;
- Render consulting and information services in respect of banking and other financial services;
- Render administrator services on the issue of bonds in accordance with the Law of Ukraine “On Capital Markets and Organized Commodity Markets”.

PJSC “BANK VOSTOK” is an active participant of the Ukrainian stock market and depository system, in particular:

- A client of the National Depository of Ukraine;
- A client of the Depository of the National Bank of Ukraine;
- A client of PJSC “Settlement Center for Servicing Contracts in Financial Markets”
- A participant in tenders of PJSC “Stock Exchange “PFTS” and JSC “Ukrainian Exchange”;
- A member of the Professional Association of Capital and Derivative Market Participants (the “PACDMP”).

The Bank has gained many years’ experience in stock market by rendering custody services of a depository institution. The Bank conducts all types of transactions with securities stipulated by the NBU’s License No. 204 dated 18 October 2011 and licenses issued by the National Securities and Stock Market Commission:

1. License Series AE No. 286862 dated 8 May 2014 “Trading in Securities – Brokerage Activities” which, on the basis of Para. 10 Section XIII of the Law of Ukraine “On Capital Markets and Organized Commodity Markets”, is treated as re-issued to the license on conducting professional activities in the capital markets in respect of trading in financial instruments, which presupposes sub-brokerage and brokerage activities.

2. License Series AE No. 286863 dated 8 May 2014 "Trading in Securities – Dealer's Activities" which, on the basis of Para. 10 Section XIII of the Law of Ukraine "On Capital Markets and Organized Commodity Markets", is treated as re-issued to the license on conducting professional activities in the capital markets in respect of trading in financial instruments, which presupposes dealer's activities.

3. License Series AE No. 263292 dated 10 September 2013 "Depository Activities – Custody Activities of a Depository Institution".

4. License Series AE No. 263291 dated 10 September 2013 "Depository Activities – Activities on Storing Assets of Joint Investment Institutions".

The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate No. 157 dated 19 November 2012), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" No. 4452-VI dated 23 February 2012.

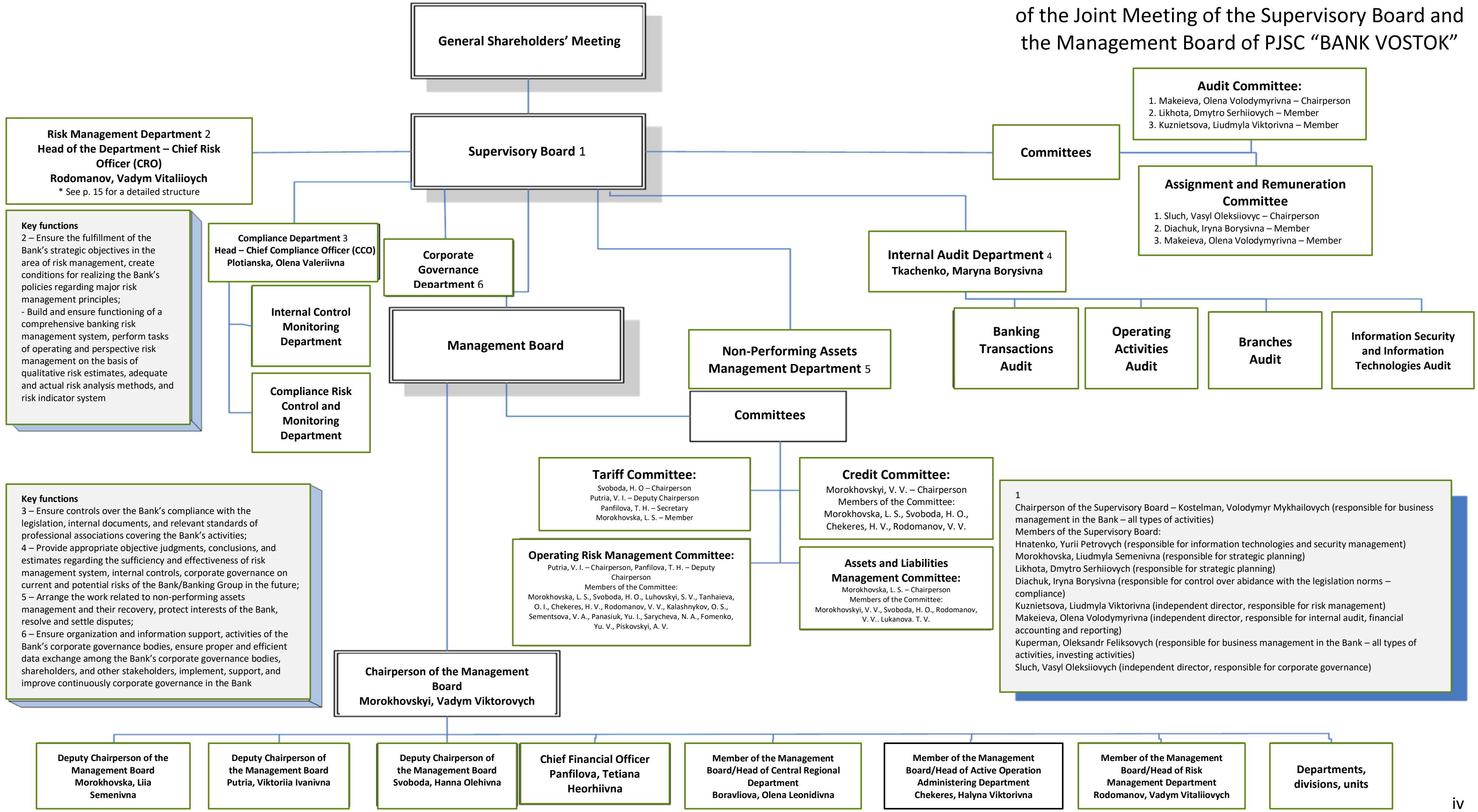
1.2. Major shareholders

The Bank's sole shareholder owning the Bank's shares in the amount of UAH 983,950,290 (nine hundred eighty three million nine hundred fifty thousand two hundred ninety Ukrainian Hryvnias), which makes up 100% of its issued capital, is Limited Liability Company "Vostok Capital" as established and operating under the laws of Ukraine. Major beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyi, and Ms. L. S. Morokhovska.

1.3. Organization structure of the Bank and information about management

Organization structure of the Bank

Annex No. 3 to Minutes No. 50 dated 5 October 2021 of the Joint Meeting of the Supervisory Board and the Management Board of PJSC “BANK VOSTOK”



The executive body of the Bank undertaking its current management is the Bank’s Management Board responsible for the effective work of the Bank in compliance with the principles and procedures established by the Bank’s Charter, decisions of the General Shareholders’ Meeting, and the Bank’s Supervisory Board.

The Bank’s Management Board has the committees created of its members for a preliminary consideration of the most important issues of the Bank’s activities that are within the competencies of the Bank’s Management Board:

- Credit Committee;
- Tariff Committee;
- Assets and Liabilities Management Committee;
- Operating Risk Management Committee.

Functions and authorities of standing committees, their structures, procedure for attracting other people for the work in committees, as well as other issues related to their activities are determined by Regulations on Committees as approved by the Management Board.

Composition of the Bank’s Management Board as at 31 December 2021:

Morokhovskyi, Vadym Viktorovych – Chairperson of the Management Board.
Honored Economist of Ukraine. Experience in banking sphere from 1991.

Svoboda, Hanna Olehivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1996.

Putria, Viktoriia Ivanivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1997.

Morokhovska, Liia Semenivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1996.

Panfilova, Tetiana Heorhiivna – Member of the Management Board/Chief Financial Officer.
Experience in banking sphere from 1997.

Chekeres, Halyna Viktorivna – Member of the Management Board/Head of Active Operation Administering Department.
Experience in banking sphere from 1988.

Boravliova, Olena Leonidivna – Member of the Management Board/Head of Central Regional Department.
Experience in banking sphere from 1993.

Rodomanov, Vadym Vitaliiovych – Member of the Management Board/Head of Risk Management Department.
Experience in banking sphere from 1996.

A body responsible for control over activities of the Bank’s executive body, protection of rights of depositors, other lenders, and shareholders of the Bank is the Bank’s Supervisory Board.

The Supervisory Board does not participate in the current management of the Bank.

The Supervisory Board is responsible for ensuring the strategic management of the Bank and establishing a comprehensive, adequate, and effective risk management system in respect of the risks encountered by the Bank in its activities, as well as for creating and ensuring functioning in the Bank of an efficient process for managing non-performing assets.

The Supervisory Board ensures the compliance of the Bank’s development strategy, the Bank’s business development plan with the Bank’s main areas of activities as determined by the General Shareholders’ Meeting, as well as the Bank’s risk management strategy and risk profile.

The Supervisory Board ensures the implementation of corporate culture within the Bank which is focused on the norms of responsible and ethical behavior, defines the Bank’s corporate values, and ensures that the Bank’s managers, heads of control units, and other employees of the Bank be aware of them, and other interested persons have the opportunity to familiarize themselves with them.

The Bank’s Supervisory Board has the committees created of its members for a preliminary study and preparation for consideration by a meeting of the issues within its competencies: Audit Committee and Assignment and Remuneration Committee.

Each committee consists of three persons, two of which are independent members of the Supervisory Board. The committees are headed by independent members of the Supervisory Board.

Functions, authorities, responsibilities, and interaction of management bodies and their committees are described in the Bank’s Charter and relevant Regulations that are reviewed at least on an annual basis.

The Bank’s Charter contains provisions that limit the authorities of the executive body in making decisions with regards to concluding agreements based on their amounts on behalf of the Joint Stock Company.

Also, the Bank’s Charter and internal regulations contain provisions on preventing, identifying, and managing conflicts of interest, i.e. contradiction between personal interests of an executive/another employee of the Bank or his/her related persons and obligation to act in the interests of the Bank.

Composition of the Supervisory Board of the Bank as at 31 December 2021:

Kostelman, Volodymyr Mykhailovych – Chairperson of the Supervisory Board.

Hnatenko, Yurii Petrovych – Member of the Supervisory Board.

Morokhovska, Liudmyla Semenivna – Member of the Supervisory Board.

Likhota, Dmytro Serhiiovych – Member of the Supervisory Board.
Member of Audit Committee.

Diachuk, Iryna Borysivna – Member of the Supervisory Board.
Member of Assignment and Remuneration Committee

Kuznietsova, Liudmyla Viktorivna – Member of the Supervisory Board (independent director).
Member of Audit Committee.

Makeieva, Olena Volodymyrivna – Member of the Supervisory Board (independent director).
Chairperson of Audit Committee.
Member of Assignment and Remuneration Committee.

Kuperman, Oleksandr Feliksovych – Member of the Supervisory Board.

Sluch, Vasyl Oleksiiovych – Member of the Supervisory Board (independent director).

Members of the Supervisory Board and the Management Board perform their functions and receive remuneration in accordance with civil and employment agreements concluded with them terms and conditions of which are approved by the decision of the Bank's sole shareholder for members of the Supervisory Board and by the Supervisory Board for members of the Management Board.

1.4. Macroeconomic overview of external environment

GDP. Destroyed facilities and infrastructure, occupation of about 20% of the country's territory, logistic difficulties, which most significantly affected the volume of exports, and drop in domestic demand hold back the recovery of the economy, both in manufacturing and service sectors. As a result, real GDP in Quarter 2, according to the NBU's estimates, decreased by almost 40%. In 2022, agriculture is going to present an additional negative contribution to this change in GDP. Despite relatively successful spring sowing and good condition of winter crops, the harvested crop will be significantly lower than in the previous year. According to the NBU's estimates, about 30% of winter crops remained in the territories of active hostilities or under occupation.

Inflation. In September 2022, the annual consumer inflation accelerated to 24.6% (from 23.8% in August). In monthly terms, prices increased by 1.9%. This is evidenced by the data published by the State Statistics Service of Ukraine. The main reason for the acceleration of inflation lies in the consequences of Russia's full-scale war against Ukraine – destruction of manufacturing facilities, disruption of supply and logistics chains, reduction in the supply of goods and services, and increase in the production costs of business. The additional pressure on prices was caused by deteriorated expectations of people and business, as well as the adjusted official exchange rate of UAH against major currencies in July, which, nevertheless, stimulated domestic producers and strengthened the stability of the Ukrainian economy in the conditions of the "war of attrition". The rates of price growth have accelerated as expected, but remained lower than the underlying forecast of the NBU, thanks to faster saturation of the market with petroleum products and stabilization of fuel prices.

Fiscal sector. Fiscal policies have become stimulating, which has softened the shock in the economy. Despite the expected narrowing of the budget deficit (from 26% of GDP in 2022, excluding grants, to 11-7% of GDP in 2023-2024), it will remain rather loose by the end of the forecasted period. This, on the one hand, will support the economy in the post-war period and, on the other hand, fuel inflation. In 2022, international financial support and budget monetization will remain major sources of budget financing. Official and market borrowings will gradually replace budget monetization in the following years. A large budget deficit will cause a rapid increase in the public debt, which will slow down after the war. However, the debt-to-GDP ratio will remain high in the next two years. In September, the state budget deficit widened significantly, which is typical for this month. However, this year, the deficit size and the rate of expansion were considerably greater than in the pre-war period, since expenditures surged.

In the period from January to September, the negative balance reached UAH 493 billion. The main sources of deficit financing were international support (in particular, due to accumulated resources in foreign currency in the previous month) and the purchase of war bonds (DGLBs) by the NBU. However, the size of the latter was kept within the announced volumes – UAH 30 billion per month.

Monetary terms and conditions and financial markets. The return on DGLBs in secondary market demonstrates a closer relationship with the discount rate, significantly exceeding the yield in the primary market. The level of interest rates on UAH-denominated deposits is gradually increasing, but it remains significantly lower than the discount rate and does not create sufficient incentives for giving preference to UAH-denominated instruments over the currency ones. The incited unfavorable information environment due to aggressive statements and terrorist actions of the Russian Federation against the preserved shortage in foreign currency have led to a situational increase in demand and shaped a devaluation pressure on the foreign exchange market. At the same time, the demand for foreign currency from the enterprises engaged in performing mobilization tasks and the purchase of foreign currency by banks with the intention to support their currency positions have increased significantly. The latter is related to the significant amounts of currency transferred to international payment systems and the increased difference between cash and official exchange rates.

Public debt. As a result of the crisis, the level of public debt will increase, and fulfillment of the budget will become more difficult. During the current crisis, public finance is in a special risk zone. The governments of almost all countries have increased expenditures and budget deficits by many times in order to support their economies and people in the times of need. The Ministry of Finance plans to allocate 4.5% of GDP for health care in the consolidated budget for 2022, and about 7.2% for education.

Impact of the pandemic on the Bank’s operations. The Bank is able to continue as a going concern in any conditions, even under crisis. A key competitive advantage of the Bank has been and relates to monitoring, analyzing, and ensuring prompt response to current movements in the market and taking timely decisions allowing to overcome crises at minimum costs. A high level of liquidity allows the Bank servicing its obligations both in UAH and foreign currencies, which has found appreciation on behalf of its customers, as well as attracting new customers. The Bank’s team and management have gained successful experience in coping with several crises. According to the Bank, the highest risk for its activities is caused by lockdown and restrictive measures affecting the economy of the country taken as a whole, including due to drop in revenues of entities caused by the decreased total demand, including due to lower income of the population. According to our estimates, spread of the virus has an adverse impact only on some industries that are in the risk zones and will, most of all, incur material losses, in particular: transport (passenger transportation), hotel and restaurant operations, entertainment centers, education institutions related to renting out property items, as well as related businesses. Besides, in the structure of the Bank’s loan portfolio, those industries occupy only up to 10%, which represents a relatively moderate risk. The Bank mostly works with the industries whose greater parts should not suffer. The Bank’s management assesses the impact of COVID-19 on its operations as insignificant which will not lead to impairment of non-current assets, a significant change in their fair values, a fluctuation in expected credit losses from financial assets, impairment of accounts receivable, etc. The Bank currently does not observe impairment indicators in respect of assets of legal entities (the portfolio of which makes up about 99% of the total). The level of coverage of lending transactions by collateral is sufficient.

The National Bank of Ukraine approved for the period of pandemic a range of reliefs in valuating assets. Correspondingly, according to the NBU’s recommendations, the Bank will grant credit vacations to its customers when they approach it (deferrals in principals’ repayment) and, when needed, perform short-term restructurings by using an individual approach through analyzing possibilities and development prospects for each individual counterparty, with reference to a specific situation that has been shaped.

1.5. Business model of the Bank

The Bank positions itself as an all-purpose bank providing all major types of banking transactions and rendering banking services to all customers irrespective of their sector profile. Our model is based on understanding that real live people are standing behind any client and, therefore, the Bank succeeds in building effective partnership relations. The Bank is an integral part of its customers' lives, a reliable financial advisor and supporter in all stages of their activities.

A strategic objective of the Bank's development is to create a universal, reliable, sustainable, effective, and profitable financial institution that is able to operate in compliance with generally accepted principles of banking practice and ethics, be independent of external interference, act on the basis of healthy competition and reasonable risk with the purpose of satisfying to the maximum degree the needs and expectations of customers and investors and operating actively in the banking market on the basis of equality and partnership.

Strategies of the Bank's development are based on the principles that presuppose a competitive ability, all-purposeless, reliability, innovation, professionalism, and prompt decision making. The increased competition makes the Bank actively apply and implement various means for attracting new and retaining existing customers. It is possible to gain competitive advantages and achieve unchallenged leadership in the banking service market only through rapid adjustment to changing external environment and ability to satisfy customer needs and create new highly technological banking products that will be in demand.

2. Major types of products and services

Services to corporate customers. With its corporate business, the Bank sees itself as the closest partner for customers. By possessing a highly professional team, the Bank renders to its customers a full range of banking services, from documentary to cash settlement services. The development strategy in corporate segment presupposes considering specific needs of customers related to their industry and other special features of activities. A special attention in the work with corporate customers is given to such industries as trade (especially retail), agriculture, and shipping. The major segment of the Bank's customers is small and medium business.

Based on the performance for 2021, corporate business of the Bank continued to grow its base of resource generating clients. A decisive factor considered in selecting customers by the Bank refers to applying a flexible and individual approach in servicing, as well as a responsible attitude to challenges that the market poses to customers and the Bank.

Retail business

Payment card operations. A major direction of the Bank's development is traditional classical banking, with an accent on business development using banking payment cards. New products and processes in servicing customers are implemented by the Bank via traditional and alternative channels of providing financial products and services.

The Bank continuously analyzes and studies peculiar features of operations and location of its customers, with the purpose of maximum customization of its services to customers' needs.

By the end of 2021, the basic line of the Bank’s payment cards was as follows: Vlasnyi Rakhunok (Own Account) Premium Card, “Zruchno Snimaty” (Convenient to Withdraw) Card, a card for teenagers “Dream Card”, “Pension Card”, “Social Card”, “Your Payroll Card”, “Sailor’s Card”, “IT Specialist’s Card”, “IT – Freelancer” Card, Visa Signature travel card, “World Elite”, virtual card for settlements in the Internet “Net.Card”, and cards with packages of services for private banking customers – “Voyage”, “Luxury”.

In 2021, a new banking product was launched within the program of “Vlasnyi Rakhunok” (Own Account) called “Bank Vlasnyi Rakhunok” – a highly technological mobile application for individuals so that they could perform banking transactions in the online mode, 24/7.

In 2022, it is planned to issue the productive environment of the updated Internet-Bank/Mobile Application of the Bank, with a new interface and extended functionality for customers.

International cash transfers. The Bank actively provides services to individuals on sending and paying cash transfers under systems of international cash transfers:

- Western Union (WU): transfer currencies – UAH, USD, EUR, RUB;
- MoneyGram (MG): transfer currencies – USD, EUR;
- Welsend Money Transfer: transfer currencies – UAH, USD, EUR, RUB;
- RIA: transfer currencies – USD, EUR;
- My Transfer: transfer currency – UAH.

To attract customers and receive additional commission income, the Bank works on expanding a list of transfer systems with which the Bank cooperates.

In 2021, an agreement was concluded and the cash transfer systems of PrivatBank were launched – Privat Money and Oshchadbank – “My Transfer”.

In 2021, the Bank entered into a cooperation agreement with the cash transfer system of Payoneer, which presupposes a possibility for creating joint marketing events for the purpose of attracting customers to transfer cash.

Based on the 2021 performance, total commission income of the Bank generated from cash transfer operations amounted to UAH 3,760,836.

Acceptance of utility payments. To increase commission income, during 2021, the Bank continued working on servicing the existing and entering into new agreements on accepting utility payments.

Granting loans to individuals

- Loans to payroll card holders – the Bank opens on the payroll card a credit limit – overdraft;
- Loans to sailors – lending to sailors who make on sails;
- Loans to IT specialists – the Bank grants loans to IT specialists who have a current account with the Bank. Without a certificate of income and collateral;
- Loans to all categories of customers – the Bank opens a limit overdraft to holders of Vlasnyi Rakhunok Cards;
- A new loan product is introduced – credit card for the Bank’s customers.

Correspondent relations. In 2021, the Bank extended the network of correspondent accounts by opening the account with the “investment class” bank Bayerische Landesbank, Germany. As at 31 December 2021, the Bank had 44 correspondent accounts of NOSTRO type opened in 14 banks, both largest foreign banks of the world: THE BANK OF NEW YORK MELLON USA, Raiffeisen Bank International AG AUSTRIA, UNICREDIT BANK AG GERMANY, and Ukrainian financial institutions: JSC “Ukreximbank”, JSC “Raiffeisen Bank Aval”, PJSC “Citibank”, PJSC JSB “UKRGAZBANK”, JSC “Oshchadbank”. By using those correspondent accounts, the Bank makes payments in 11 currencies, which allows the Bank’s customers making settlements on foreign economic contracts in the shortest possible time, with conversion to 127 currencies of the world. As at 31 December 2021, the Bank had 9 correspondent accounts of LORO type opened for two banks.

Depository activities. The Bank, pursuant to the Licenses issued by the National Securities and Stock Market Commission (the “NSSSCM”), performs the following types of depository activities:

- Custody activities of a depository institution;
- Storage of assets under collective investment schemes.

PJSC “BANK VOSTOK”, as a depository institution, has accounts opened with the National Depository of Ukraine and the Depository of the National Bank of Ukraine. The Bank is a participant of the Professional Association of Derivative and Capital Market Participants. The Bank consistently participates in the NBU’s tenders on placement of short-term deposit certificates issued by the National Bank of Ukraine.

During 2021, the Bank conducted 220 transactions in the NBU’s SertLine system on purchases of depository certificates issued by the National Bank of Ukraine for the total amount of UAH 86,310,000 thousand.

In 2021, accounting transactions with corporate and government securities amounted to UAH 15,590,352 thousand at the nominal value. It is evident that the dynamics of accounting transactions is high.

As at 31 December 2021, the Bank’s depository assets on storage with the depository institution amounted to UAH 11,570,836 thousand. Under the rating of the Professional Association of Derivative and Capital Market Participants, the Bank is ranked under No. 16 among 108 depository institutions of Ukraine, which a good result of work.

As at 1 January 2022, the Bank, as a depository institution, will be servicing 203 issues of securities. Commission income on depository activities for 2021 amounted to UAH 1,316 thousand.

Trading in securities. The Bank is an investment firm and has the following types of licenses issued by the National Securities and Stock Market Commission on conducting professional activities related to trading in financial instruments:

- Dealer’s activities;
- Brokerage activities;
- Sub-brokerage activities.

As part of its dealer’s activities, the Bank invests its own funds in national and foreign currencies in financial instruments in the domestic and foreign capital markets. The portfolio of the Bank’s own securities includes various types of bonds, including Government debt securities of Ukraine in national and foreign currencies, national currency denominated domestic local loan bonds, government bonds of foreign countries that have investment class ratings assigned by leading international rating agencies. In order to manage the Bank’s short-term liquidity, funds in national currency are invested in deposit certificates issued by the National Bank of Ukraine. The carrying value of the Bank’s investment in securities portfolio as at 31 December 2021 in UAH equivalent amounted to UAH 6,310,164 thousand, and increased by UAH 1,040,366 thousand compared to the previous year.

As part of its brokerage and sub-brokerage activities, the Bank provides investment services to its customers relating to purchase, sale, exchange of financial instruments on behalf of and in the interests of customers. The Bank carries out investment operations of its customers both in the regulated and unregulated (over-the-counter) Ukrainian capital market, and in the international market by using the services of leading European investment firms. The objects of investments of the Bank’s customers are mainly government debt securities of Ukraine, debt securities issued by foreign governments, corporate bonds, including those of foreign issuers, as well as shares and securities of joint investment institutions. During 2021, the Bank concluded agreements within the framework of its brokerage activities at the cost and in the interests of its customers for the total amount of UAH 588,200 thousand.

Issuer’s transactions. In 2021, the Bank registered the issue of shares due to the increase in the Bank’s issued capital through the increase in the nominal value of shares of PJSC “BANK VOSTOK” and, in February and July, received the certificate of the National Securities and Stock Market Commission No. 06/1/2021 on registration of the issue of shares with the new nominal value in the amount of UAH 273.94 per share for the total amount of UAH 841,954 thousand and No. 42/1/2021 in the amount of UAH 320.14 per share for the total amount of UAH 983,950 thousand, respectively.

Documentary operations. The Bank traditionally offers to its customers a complete range of services on documentary operations: bank guarantees, counter-guarantees, documentary letters of credit and collection, and trade finance related services.

Besides, in 2021, the Bank reached record performance by several key performance indicators on documentary operations:

- Total documentary obligations granted during the year (216% of the prior year indicator);
- Portfolio of documentary obligations at the year end (231% of the prior year indicator);
- Commission income on documentary operations (270% of the prior year indicator).

Information about other services rendered by the auditing entity, other than the statutory audit services. In 2021, LLC “Deloitte & Touche USC” did not provide the Bank with the services, other than the statutory audit services.

In 2021, LLC AF “KAUPERWOOD” provided to the Bank the services on review of the Bank’s interim financial statements:

- As at 31 March 2021, for submitting a package of documents to register the issue of shares due to the increase in the Bank’s issued capital through the increase in the nominal value of shares;
- As at 30 September 2021, for submitting to the National Securities and Stock Market Commission in order to obtain new types of licenses for trading in financial instruments.

3. Achievements of the Bank

PJSC “BANK VOSTOK” won in two nominations of the PaySpace Magazine Awards 2021. The Bank received two awards as the Best Bank-Acquirer and also the first very prestigious award – the third place in the nomination of the Best Digital Bank (for the Vlasnyi Rakhunok Bank).

PJSC “BANK VOSTOK” was named the People’s Bank by the FinAwards2021. FinAwards is the annual contest that recognizes the best financial companies in the implementation of products, advanced technologies, and customer services. The founders of the award are popular Ukrainian websites on finance and investments Minfin.com.ua and Finance.ua, and the organizer is BankOnline. On 21 May, the fourth award ceremony for outstanding achievements in the banking sector, the FinAwards 2021, was held in Kyiv. The Bank participated in the nomination of the People’s Bank and was among its five winners.

PJSC “BANK VOSTOK” won in the nomination of Payroll Bank in the rating of member banks of the Independent Association of the Banks of Ukraine (the IABU). On 11 November, in Kyiv, the Premier Palace Hotel hosted the honorable event on celebration of the 10th anniversary of the Association. As part of the event, winners in the rating of the IABU member banks were awarded. 19 Ukrainian banks were nominated, including the Bank that won the nomination of “Payroll Bank”. The Financial Club conducted the contest the results of which were based on the reporting data of participant banks published by the National Bank of Ukraine.

PJSC “BANK VOSTOK” was awarded for extending the line of new tools in the capital markets of Ukraine. The Bank was awarded in the nomination called “For Extension of the Line of New Tools in the Capital Markets of Ukraine”, since, in the period 2020-2021, we were in the continuous search of new tools for the development of investing activities. The Bank decided to bring the US and Mexico treasury bonds to the Ukrainian stock market. In spring 2021, treasury bonds were introduced to the base of the National Depository of Ukraine in the domestic stock market through the foreign depository of Clearstreem. Joint efforts of the Bank’s employees and those of the National Depository of Ukraine resulted in the success – treasury bonds of the USA and Mexico became available in free circulation.

PJSC “BANK VOSTOK” became a partner of Private Financing Advisory Network (the PFAN). Partnership of the Bank and the PFAN represents a possibility to unite global investors on the one hand and domestic entrepreneurs on the other by means of attracting investments in prospective projects. As a partner of the program, the Bank is going to receive ready and verified PFAN projects for further consideration and, together with its partners, strengthen its role in the area of energy restoration in Ukraine.

PJSC “BANK VOSTOK” was awarded by Visa. Visa payment platform awarded the Bank at its annual forum with a diploma for promoting cashless payments in digital. During the period of long and productive cooperation, Visa and the Bank launched a range of successful projects for the Bank’s customers aimed at improving loyalty to online purchases and cashless payments.

Volume of “Affordable Loans 5-7-9%” issued by PJSC “BANK VOSTOK” reached UAH 1 billion. The Bank continues to actively support small and medium business within the program of “Affordable Loans 5-7-9%”. To date, the Bank’s customers received loans amounting to UAH 1 billion. Starting from the first agreement, during the whole period of the program, the Bank received applications for participation for the total amount of UAH 1,796,000 thousand.

PJSC “BANK VOSTOK” granted the first soft loan to an entity in Kharkiv. The Bank has become the first bank to start partially compensating interest on loans for the development of small and medium-sized businesses in the city of Kharkiv and has granted the first soft loan under the Program of the Kharkiv City Council on Partial Compensation of Interest at the Level of 50% at the Cost of the Local Budget. This loan has been granted under the Program “Affordable Loans 5-7-9%”, i.e. the interest rate for the use of the borrowing facility has been reduced at the cost of using two Programs of Entrepreneurship Support, and the customer has obtained financing on the most favorable terms and conditions.

Mr. Vadym Morokhovskyi, Chairperson of the Management Board of PJSC “BANK VOSTOK”, was elected to the new Council of the IABA. The Independent Association of the Banks of Ukraine is the largest banking association in Ukraine created to promote the stable functioning and development of the country’s banking market and comprehensive protection of interests of the Ukrainian banking community. According to the decision of the IABA’s General Meeting, the Chairperson of the Management Board of the Bank Vadym Morokhovskyi and 12 top managers of leading Ukrainian banks became members of the Council of the Independent Association of the Banks of Ukraine. According to the founding documents of the Association, the Council is re-elected every four years. Earlier, in 2017, Vadym Morokhovskyi was already elected as a member of the Council.

2. Objectives of management and strategies for their achievement

Fundamentals of the Bank’s ideology include loyalty to its customers, mobility and flexibility in decision making, readiness to provide any types of banking services to legal entities and individuals with a maximum comfort and customer-specific service. The Bank represents a huge family for its customers and employees, any tasks in it are fulfilled promptly and efficiently.

One of the most important strategic goals of the Bank is to ensure a qualitative and balanced loan portfolio through implementing the effective credit policies; further increasing the amount of equity; maintaining liquidity at an adequate level, and ensuring timely implementation of legislative requirements and the most effective liquidity management methods and system.

To improve the Bank’s rating positions in respect of lending to individuals, the Bank decided to implement a new product called “The Bank’s Own Account”.

This product presupposes the following:

- Servicing an individual customer via a mobile application, without a need to visit the Bank’s branches;
- Granting overdrafts (for this, the Bank uses its own scoring model and system of decision making on setting and changing limits).

Policies of asset management presuppose the Bank’s operations that are aimed at allocating own and borrowed funds for the purpose of earning profits and ensuring the sufficient level of liquidity and the Bank’s solvency. The Bank adheres to the principles of weighted financial management in shaping and managing the structure of assets and liabilities, effective management of the ratio of individual sources and types of liabilities, creating an optimal balance sheet structure, improving the paying capacity, and strengthening the financial resilience.

Internal control system. The Bank's internal control system is based on the principles generally accepted in international practice, as well as the standards and tools recommended by the National Bank of Ukraine, the Basel Committee on Banking Supervision, and other international organizations that regulate in their provisios the principles of effective corporate governance and functioning of internal controls in banking.

Internal control of the Bank is the process integrated in all processes of the Bank's activities and corporate governance that is aimed at achieving operating, information, and compliance goals of the Bank's operations.

Norms and requirements of functioning the Bank's internal control system are determined by the Policies of Internal Control in PJSC "BANK VOSTOK" approved by the Bank's Supervisory Board.

The Bank ensures functioning of a comprehensive, effective, and adequate internal control system ("ICS") comprising the following key components:

- Control environment;
- Risk management in respect of the risks inherent to the Bank's activities;
- Control activities;
- Control over information flows and communications;
- Monitoring of ICS's efficiency.

The Bank's ICS is based on segregation of duties among the Bank's units, other than functions within the sole competence of the Bank's Supervisory Board/Management Board/Committees in accordance with the provisions of the legislation of Ukraine, regulations of the NBU, and internal documents of the Bank. This segregation is based on applying three lines of defense.

Subjects of the Bank's ICS are:

The Bank's Supervisory Board, Audit Committee, and Assignment and Remuneration Committee that ensure functioning of the Bank's ICS and monitor their effectiveness.

First line of defense:

- The Bank's Management Board, collegiate bodies of the Bank's Management Board that ensure fulfilling decisions of the Bank's Supervisory Board, perform current management of ICS, determine, within their own competences, the authorities and duties in respect of ICS, ensure compliance with corporate values and control culture;
- Business and support units of the Bank that initiate, perform, or record operations, accept risks in the course of their activities, and bear responsibility for current management of those risks, undertake controls within their authorities established by the Bank's internal documents;
- Risk coordinators of business and support units determined by the Bank's internal documents that perform internal controls within the functions determined by those documents;
- Other heads of units and employees engaged in internal controls in accordance with the authorities determined by internal banking documents.

Second line of defense:

Risk Management Department and Compliance Department that monitor the efficiency of controls in the first line of defense within functions of independent control in the second line of defense, within their functional authorities, ensure implementation and efficiency of risk management system in accordance with the requirements of the effective legislation and internal regulations of the Bank on risk management, and ensure confidence of the Bank’s leaders that controls and risk management measures set in the first line of defense have been developed and function properly.

Third line of defense:

Internal Audit Department that independently evaluates the efficiency of the first and second lines of defense and overall efficiency of ICS.

The Bank applies controls to achieve the following:

- Prevent violations by preventing deficiencies/inconsistencies/violations (including through determining authorization rules for transactions or controls of granting access);
- Identify violations be identifying deficiencies/inconsistencies/violations (including through double or automated control, self-control/self-assessment);
- Rectify violations be rectifying deficiencies/inconsistencies/violations (including through ensuring automated correction of errors in the Bank’s information systems).

2.1. Vision, mission, and values

Mission of the Bank. We are a family bank. We value each of our employees and each of our customers. We cherish relationships and increase values. We are created to help our customers develop and, through joint efforts, make their businesses stable and prosperous, preserve and multiply assets. We are a bank with a long-term development perspective. We strive to be reliable and stable in any conditions. We create traditions that will be passed down from generation to generation. We ensure confidence and reliability. We make life better by helping dreams come true.

Vision of the Bank. We are a modern, innovative, technological bank whose activities are integrated into the international financial environment that offers customized services and a high level of service, is always ready to respond to new needs of customers and has gained their high confidence, whose activities are aimed at promoting the development of customers’ businesses and improving their financial well-being through providing traditional banking services and implementing the latest digital and mobile technologies. It is a viable and gradually growing bank that applies a professional approach to risks and is ready for any business development scenarios.

Values of the Bank:

- Open and transparent conditions for operations in the market;
- Strict abidance by the legislative regulations, rules, and standards;
- Continuous development, striving to be a step ahead of competitors;
- Paying attention to individual needs of customer;
- Devoted attitude to common work and personal responsibility of each employee;
- Well-coordinated teamwork.

2.2. Achievements in the area of research and developments, innovations

Optimization of the banking services processes will be aimed at their simplification, standardization, and automation. This will allow increasing the efficiency of the processes, facilitating document flow, formalizing the system of analytical evaluation of a number of loan products, and improving the quality of customer services. Considering modern requirements to financial institutions, the issues of the Bank’s information policies come to a priority level.

In the conditions of the military aggression of the Russian Federation and the Covid-19 coronavirus pandemic, the Bank aims at developing remote customer service channels, including remote identification and video verification, integration with the Diaa service, in order to provide qualitative services and open new banking products remotely.

For this purpose in mind, the Bank continues developing key projects that ensure qualitative remote services, in particular:

- Automated decision-making system (ADS) which ensures integration with Diia, BankID and, using which, scoring algorithms are improved. The Bank continues developing remote opening of current accounts, works on the possibility of opening deposits and placing military bonds. ADS provides for and, in accordance with the recommendations of the NBU, Liveness Detection functionality has been developed which is aimed at protecting against fraud. In the future, the scoring algorithms are going to be improved in the process.
- Realizing the importance of rendering high-quality information services, the Bank continues improving the new customer relationship management (CRM) information system, on the basis of which a high-quality segmentation of the customer base will be performed and an individual approach to the customer is going to be implemented. As part of the CRM system, the Bank will consolidate all the information it has about a customer – products, transactions, applications, contacts with the customer, etc. The system will be integrated with the customer application software. With the help of BigData, an intellectual approach for cross-selling will be realized, credit scoring will be improved, and telemarketing databases will be created.
- The Bank is developing its own video identification procedure, which it plans to use in most products – “Bank Vlasnyi Rakhunor (Own Account)”, remote opening of accounts by individual entrepreneurs, etc., which will allow the Bank’s customers to use not only simplified identification, but also fully get use of the Bank’s services – go through a re-identification procedure, send documents to the Bank using the Diia system, make a secure call to the Bank. In the future, the Bank will work on the processes aimed at improving the procedure and tools in the video identification process. As part of the video identification procedure, in accordance with the Know Your Client (KYC) principle, the Bank will collect, store, and analyze call data, markers, and indicators that will help determine the likelihood of fraud.
- In the CRM system, a Solomon workplace for the outlet’s manager is being developed, with the help of which it will be possible to fully and qualitatively serve the customer in the Bank’s outlet. The workplace has been developed and implemented an operator of the Soft-Collection – Collection team.
- Payment card transactions in the Bank are recorded by using the IS-Card issuance and retail service system. The system contains all the necessary tools for building long-term relationships with customers and developing loyalty programs. However, considering the rate of growth of transactions with payment cards and the number of card products, the Bank continues implementing the new SOLAR back-office card system, to which one of the banking products has already been migrated. All other card products of the Bank are also planned to be migrated.

- Search system of customer databases collects and consolidates all information on the existing and potential customers of the Bank, allows performing reviews in public and commercial databases. Within the framework of the system, the Bank continues to integrate with the Ukrainian Bureau of Credit Histories (the UBCH), YouControl, state registers, which undoubtedly improves customer search algorithms.
- Realizing the importance of timely access to customers’ cases and in connection with the development of remote identification channels, the Bank is implementing data storage in an electronic archive. It is planned to implement the electronic document management system based on the archive. Customers’ legal files are going to be digitized, and the existing electronic documents from IS-Card will be transferred and arranged, and the documents received from the Dia, BankID applications and other accredited sources will be stored.
- The Bank continues developing and improving the new version of the My Bank Vostok mobile application and web banking, which will implement a full range of services, remote authorization, currency exchange, opening deposits, and obtaining loans.

The Bank continues improving and optimizing the mobile application of “Bank Vlasnyi Rakhunok” – a new remote banking service channel, which is based on the ease of opening and using the Bank’s products.

The Bank has developed the application on iOS and Android platforms (including HUAWEI AppGallery), which allows a customer to receive a plastic or virtual payment card of the Bank, including with a possibility of simplified identification (customer photo processing) and full video identification, and integrate with the Diia services – which expands the customer base without any load on the Bank’s outlet. In addition, to simplify the process of registering new customers, it is planned to integrate the mobile application with BankID services.

The automated decision-making system (ADS) for loan applications, which combines a sufficiently large number of integrations and artificial intelligence algorithms, offers an opportunity to quickly and qualitatively assess the customer’s financial position and grant a competitive credit limit, represents a powerful tool in increasing the growth rate of the loan portfolio of individuals. The next step is to improve the automated loan portfolio management algorithms (fraud prevention, behavior/collection scoring).

Integration of the application with well-known electronic wallets (Apple Pay, Google Pay) and a wide range of services (transfers, utility payments, mobile top-up) makes it convenient to use, and participation in the “Own Account” loyalty program gives it an advantage compared to other applications in the banking sector and fintech direction.

Automation of the factoring process is also an important project for ensuring the business strategy.

The Bank has successfully been certified for compliance with the requirements of PCI DSS (Payment Card Industry Data Security Standard), proper implementation of security requirements in accordance with the recommendations of SWIFT Customer Security Controls Framework 2021 Standard. Thanks to this, the Bank’s customers can be sure of the reliability and safety of the remote services provided.

Owing to the available PCI DSS compliance certificate, the Bank is able to develop its own e-commerce portal E-COMMERCE, which will allow rendering better and modern services to electronic acquiring customers.

The construction of its own Security Operations Center (SOC) will provide an opportunity to significantly increase the level of protection of the Bank's information assets and customer data at both the organizational and technical levels.

SOC will allow automating the process of monitoring, identifying, responding to information security incidents, preventing in a timely manner cyber threats to corporate information systems of the Bank (websites, applications, databases, data processing centers, servers, active network equipment, computers, and other end equipment).

For the Bank's customers, this is an additional confirmation of the seriousness of the Bank's efforts to ensure the appropriate level of information security of card data and international payments, evidence of the priority of those tasks for management.

In addition, this is a confirmation of the Bank's reputation and its efforts to preserve customer data and their confidence.

3. Resources, risks, and relationships

3.1. Key financial and non-financial resources

A key goal of the Bank in capital management is to ensure the sufficient volume of available capital at any time in order to realize its strategy. The Bank's requirements to capital are determined on the basis of the Bank's strategies, risk appetite, and exposures at the current moment and in the future. Considering an ambition to optimize the Bank's total value, we take into account the requirements of controlling bodies, expectations of rating agencies, and interest of customers and investors, as well as sufficient profitability to shareholders. We also apply internal goals to be performed. Those goals are reconciled with our objective to be a stable bank conducting its activities with a low risk profile.

The Bank has a strong capital position in terms of coverage adequacy of risk-weighted assets. This allows the Bank to continue moving on its road of development.

The Bank's issued capital grew by UAH 188,036 thousand to UAH 983,950 thousand in 2021, in particular, as a result of contributions to the issued capital of retained earnings of prior years.

In February 2021, the Bank registered the issue of shares as a result of increasing its statutory capital through the increase in the nominal value of shares of PJSC "BANK VOSTOK" and obtained Certificate of the National Securities and Stock Market Commission No. 06/1/2021 on Registration of Share Issue, and the new nominal value of UAH 273.94 per share for the total amount of UAH 841,955 thousand.

In July 2021, the Bank registered the issue of shares as a result of increasing its statutory capital through the increase in the nominal value of shares of PJSC "BANK VOSTOK" and obtained Certificate of the National Securities and Stock Market Commission No. 42/1/2021 on Registration of Share Issue, and the new nominal value of UAH 320.14 per share for the total amount of UAH 983,950 thousand. The Bank is in compliance with adequacy requirements to core and regulatory capital.

In 2021, the Bank maintained its liquidity position that met both its internal goals and statutory requirements. The Bank calculates on a daily basis liquidity ratios in accordance with the requirements of the National Bank of Ukraine.

To manage liquidity risk, the Bank uses gap analysis between assets and liabilities in accordance with expected maturities.

In managing assets and liabilities, the Bank takes into account behavioral aspects, irrespective of short maturities for current customer accounts, considers a significant level of a stable part in those balances. The Bank’s customers have a trend of holding cash on current accounts during a long period of time.

Strategies of funding support the Bank’s strategy. In this connection, the Bank strives to optimize and ensure for access to diversified sources of funding to support a long-term position and liquidity profile of the Bank.

The Bank has been conducting profitable activities during the whole period of its existence.

Based on the 2021 performance, the Bank received profit in the amount of UAH 285,784 thousand.

Customer accounts represent a key source for the Bank’s resource base. Besides, during the reporting period from the beginning of the year, a share of customer accounts in the total volume of the Bank’s liabilities increased from 95% to 96%. The Bank strives not only to retain the shaped customer base, but also attract new customers. In this connection, in compliance with the principle of all-purposeness, the Bank attracts for servicing, alongside with large corporate entities, representatives of small and medium business and individuals. Thus, it ensures comprehensive services to the sphere of consumer interests of the Bank’s customers and their partners.

In the conditions of the COVID-19 virus pandemic, the Bank sees additional opportunities for attracting funds from legal entities and individuals by:

- Using loyalty programs to the Bank’s depositors for the purpose of extending the existing and attracting new deposits;
- Performing face-to-face work with the most significant depositors, conducting meetings with corporate customers to determine possibilities for attracting funds;
- Adjusting earlier established limits and cost of the Bank’s services with the purpose of creating favorable conditions for the most important customers.

Another opportunity is applying standard tools of the National Bank of Ukraine for regulating liquidity. The Bank has concluded an agreement with the maximum limit of UAH 1,000,000 thousand collateralized by highly liquid assets.

As for possible outflows of funds borrowed from customers, the Bank monitors, on a consistent (daily) basis, movements in cash on term and current accounts of customers and analyzes their fluctuations. Based on the analysis results, a specific decision is taken.

Considering that the Bank’s customer base consists mainly of the customers working with the Bank for many years, the Bank does not expect sharp cash outflows.

Due to the fact that a significant portion of the Bank’s customers is from the economy sectors that have not suffered much from the COVID-19 impact, to date, the Bank observes even growth in the volume of cash on current accounts of customers (e.g., customers from trade sector). In the process of liquidity risk management, the Bank mitigates on a daily basis this risk by diversifying liability related transactions and reducing their concentration, and creating a sufficient level of unencumbered highly liquid assets.

The Bank also attracts funding from international investors in order to diversify sources of funding. With this purpose, the Bank uses different funding tools that cover varied terms, markets, regions, and types of investors.

The Bank attracts funds for the period of more than one year by:

- Attracting a subordinated debt. As at 31 December 2021, the carrying value of the subordinated debt amounted to UAH 206,792 thousand (31 December 2020: UAH 111,740 thousand).
- Attracting long-term borrowings from international financial organizations. Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8,000 thousand. In March 2019, the Bank received from WORLDBUSINESS CAPITAL, INC. the second long-term borrowing for the period of 9 years in the amount of USD 8,000 thousand.

The Bank is planning to obtain a license on asset management. Owing to the license obtained, it plans to attract into management the funds of legal entities and individuals. The attracted funds are planned to be placed in both domestic and foreign financial instruments, including, but not limited to:

- Domestic and foreign government loan bonds of Ukraine;
- Bonds of foreign countries;
- Corporate bonds;
- Shares of foreign issuers;
- Non-deliverable forwards;
- Contracts for price differences;
- Options;
- Futures.

Management of customers' assets, as well as direct access to more than 50 international financial markets for the Bank's customers (legal entities and individuals) will be possible with the help of trading platforms of international brokers, such as EXANTE, SAXO BANK, with which the Bank has concluded relevant agreements.

Also, the "Bank Vlasnyi Rakhunor (Own Account)" mobile application is being developed, in particular, opening a brokerage account, replenishing a brokerage account, trading financial instruments through the "Bank Own Account" mobile application, which will be connected via API directly to the trading platforms of international brokers. This will allow the Bank's clients to conduct direct trading in financial instruments.

3.2. Risk management system

The main strategic task for risk management system functioning is to minimize possible financial losses (loss of revenue) from the effects of risks to which the Bank is exposed and ensure the financial stability and long-term resilient development of the Bank in accordance with the objectives set in the Bank's Strategic Development Plan.

The Bank pays a great attention to effective risk management through achieving an optimal balance of risk and profit-making.

The Bank has built a risk management system which is based on the principles that comply with the Ukrainian legislation, the NBU’s regulations, international standards, and best risk management practices. The Bank consistently improves the approaches to risk and capital management taking into account internal models by ensuring the necessary infrastructure and development of information systems, applies the established risk management practices by paying special attention to significant types of risks (credit risk, liquidity risk, operating risk, market risk, interest rate risk of banking books, and risk compliance).

The Bank’s risk management system is based on the Bank’s Strategic Development Plan, Risk Management Strategy, the Risk Appetite Declaration, the Corporate Code, individual risk management policies, as well as methods and procedures for managing significant types of risks, which ensures determination of appropriate limits, introduction of reliable control procedures, as well as control of risks and their level in accordance with the established limits using administrative means and means of information systems.

The Bank has implemented the risk management system based on the concept of three independent lines of defense, taking into account the requirement to the absence of conflict of interests, which ensures the responsibility of the Bank’s units for risk. The Bank conducts a balanced risk assessment, sets risk acceptance limits, monitors the levels of risk, implements control procedures, and timely reports on the accepted risks. In order to predict the possible consequences of exposure to risks, it carries out regular stress testing of the main types of risks.

Risk management which is independent of business units within the framework of the second line of defense is carried out by Risk Management Department and Compliance Department, which are responsible for functioning of the risk management system, risk management, control over compliance with regulations, ensuring the application of uniform principles and methods of detection, assessment, management, and providing information to the Bank’s management.

During the reporting period, the Bank continued implementing processes for building the effective risk management system and implemented a range of projects on improving key business processes by undertaking the required actions:

- Developed and implemented a scoring model, rules for automated decision-making in respect of setting and monitoring the limits applied for retail loan products under the “Bank Vlasnyi Rakhunor (Own Account)” – a new distribution channel for banking services which presupposes servicing a customer-individual via the mobile application, without a need to visit the Bank’s branches, in particular, granting overdrafts;
- Worked on developing, testing, and implementing the Bank’s Business Recovery Plan (“BRP”);
- Ensured monitoring of risk appetite and BRP indicators on a consistent basis for warning on their potential violation, reporting in a timely manner on risk profile to collegiate bodies;
- Revised in a timely manner and updated the internal regulations on risks, improved the system of limits and restrictions on risks with the help of which the Bank monitors current risk profile;
- Finalized information systems that ensure analytics and visualization of the required data/risk indicators, including in dynamics and by all required breakdowns.

To achieve its business goals and based on the specific nature of its activities and business model, the Bank accepts, maintains, monitors, and controls on a consistent basis for mitigation purposes the following types of risks that its considers to be significant:

- Credit risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of a debtor/counterparty to fulfill its obligations taken in accordance with the contractual terms and conditions. The Bank minimizes (mitigates) its credit risk by carefully selecting and analyzing the credit ability of potential borrowers, diversifying the customer base, controlling the loan use, accepting as a collateral highly liquid assets and insuring them, creating relevant provisions, monitoring borrowers on a consistent basis, complying with set credit risk ratios, maintaining the adequate level of equity, setting risk appetite indicators on this type of risk.
- Liquidity risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of the Bank to finance the increased assets and/or fulfill its obligations when they are due. This is a risk of imbalance in cash proceeds and outflows that gives rise to deficit or excess in liquidity. The Bank minimizes (mitigates) its liquidity risk by balancing the Bank’s assets and liabilities, maintaining at a high level highly liquid assets together with clear compliance with the ratios set by the National Bank of Ukraine. To minimize its liquidity risk, the Bank consistently assesses its liquid position, analyzes external and internal factors that have an impact on liquidity.
- Market risk and interest rate risk of bank book represents a probability of losses or incremental losses or failure to receive planned income as a result of the effect of unfavorable changes in exchange rates, interest rates, and value of financial instruments. The Bank minimizes its currency risk by: severely abiding by strict currency position ratios, managing open currency position based on VaR (Value at Risk) calculation (structural optimization), setting limits to currency operations, performing hedging, forecasting proceeds and payments in foreign currencies, and projecting foreign exchange rates. Interest rate risk of bank book is mitigated by forecasting changes in market interest rates, performing GAP management (managing susceptible to interest rate fluctuations assets and liabilities), forecasting a potential amount of under-received interest income of the Bank, setting risk appetite indicators on this type of risk.
- Operating risk represents a probability of losses or incremental losses or failure to receive planned income as a result of deficiencies or errors in organization of internal processes, deliberate or unintentional actions of the Bank’s employees or other persons, failures in operation of the Bank’s information systems or due to the effect of external factors. Operating risk includes legal risk, information risk and also may include reputational and strategic risks. This type of risk is mitigated by establishing processes for identifying and assessing events of the Bank’s operating risk, monitoring on a regular basis the arising risks, implementing a fraud management system, distributing access rights in information systems and complying with information security rules, applying key risk indicators, implementing a system of measures on reducing information security risk, outsourcing, testing on a regular basis business continuity plans, setting tolerance levels on this type of risk, etc.
- Compliance risk represents a probability of losses/sanctions, additional losses or failure to receive planned income or loss of reputation as a result of the Bank’s failure to comply with the requirements of the effective legislation, regulations, market standards, fair competition rules, corporate ethics rules, a conflict of interest, as well as internal regulations of the Bank.

Compliance risk management in the Bank is fully integrated into the general risk management system of the Bank and is aimed at:

- Determining processes/transactions where internal control procedures are not sufficient to maintain an acceptable level of compliance risk;

- Reviewing, defining, and allocating priorities in respect of potential compliance risk zones, as well as advising on relevant standards, procedures, and decisions in the sphere of compliance;
- Determining possible changes in controls (mitigating the risk, refusing from operations) in order to ensure a general level of compliance risk at an acceptable level;
- Reviewing, identifying violations of the effective legislation requirements, standards of professional associations covering the Bank’s activities, internal banking documents, customer service standards, cooperation with third parties due to existence of contractual relations;
- Identifying criminal or other illegal behavior or the behavior incompatible with internal standards and rules of the Bank;
- Identifying and managing conflicts of interest that may arise at all organization levels of the Bank’s organization structure;
- Taking adequate and timely management decisions.

To support the Bank’s positive image and mitigate compliance risk, the following key procedures and measures are undertaken through implementing the system of compliance and internal control:

- Ensuring open and transparent relationships of the Bank with all stakeholders;
- Complying with a “tone at the top” principle and maintaining a spotless reputation by management of the Bank;
- Complying with a “zero tolerance” principle, unavoidability of punishment for any acts of fraud and corruption;
- Observing by the Bank of the legislation requirements of Ukraine, together with studying its customers, counterparties, third parties in the course of establishing business relations and further mutual cooperation with them in terms of non-admitting corruption violations, illegal activities in the sphere of financial monitoring, sanctions, and other discrepancies;
- Adhering to competitive and ethical behavior of the Bank in the market of banking services and complying with other principles and components of the Bank’s activities set in the Corporate Code and the Anticorruption Policies;
- Maintaining a clear position in the sphere of antimonopoly regulation that is based on non-performing any agreed anticompetitive actions in accordance with the antimonopoly legislation;
- Implementing the culture of risk management and culture of control that ensure the awareness and engagement of the Bank’s management and other employees of the Bank to the system of risk management and internal control;
- Ensuring transparency in realizing the Bank’s processes;
- Working consistently on the Bank’s image and shaping a positive public opinion of the Bank;
- Introducing changes in the Bank’s processes and/or intensifying controls;
- Implementing a system of limits and restrictions on compliance risk;
- Developing/updating relevant standards, instructions, procedures, when needed, with the participation of Compliance Department.

3.3. Relationships with shareholders and related parties and managing them

In accordance with the Law of Ukraine “On Banks and Banking”, the Bank’s related parties are represented by a number of individuals or legal entities that meet the requirements of Article 52 of this Law and which include, inter alia, shareholders and management of the Bank.

The Bank has implemented a process for identifying its related parties and controlling transactions with them, ensuring for appropriate identification, determination, monitoring, reporting, management, and control of the Bank’s related party transactions.

A procedure for the Bank’s related party transactions, submitting information about such parties to the National Bank of Ukraine, and other issues related to measures of corporate governance, internal control, and risk management in this respect are regulated by internal regulations of the Bank.

The Bank transacts with its related parties with unconditional compliance with the requirements and restrictions established by the effective legislation, in particular, the Law of Ukraine “On Banks and Banking”, and regulations of the National Bank of Ukraine.

The Bank controls its related party transactions using a precaution that a beneficiary of a transaction and/or its related party may not be involved in the process of performing and managing the related party transaction.

Related party transactions are subject to regular reviews on behalf of internal audit, with reports on findings based on those reviews submitted to the Bank’s Supervisory Board.

The Bank’s Management Board makes the Bank’s Supervisory Board aware of untimely or inappropriate fulfillment of obligations by related parties to the Bank.

All related party transactions are performed in compliance with principles of control in accordance with the requirements of the Bank’s internal regulations and the effective legislation. Control over related party transactions is executed by the Bank’s employees in compliance with their functional duties and includes a list of procedures that ensure integrity and completeness of the related party identification process in performing transactions, control over such transactions, as well as the procedures that ensure control over compliance with limits and restrictions.

When identifying related parties, performing banking transactions with them and other contacts, the Bank’s employees strictly comply with the established rules and procedures, as well as strive to avoid to a maximum degree the impact on behalf of related parties (including shareholders) with the purpose of minimizing of their possibility to receive gains at the cost of deteriorated performance of the Bank. Relationships are managed by means of control over processes on behalf of employees of Risk Management and Compliance Departments who, in particular, ensure control over the Bank’s compliance with the norms for determining a list of the Bank’s related parties to ensure integrity and completeness of the process for identifying the Bank’s related parties and monitoring transactions with them.

During 2021, the Bank performed active operations with related parties, but the volume of those transactions was immaterial in relation to the total loan portfolio of the Bank and had no effect on its performance.

4. Analysis of key performance

4.1. Financial performance

In 2021, the Bank’s performance that make it possible to understand major trends and factors affecting the Bank’s business were as follows.

Total assets of the Bank as at 31 December 2021 amounted to UAH 19,486,357 thousand, which was by UAH 3,229,087 thousand, or 20%, more than in the previous year (31 December 2020: UAH 16,257,270 thousand.

The Bank’s assets as at 31 December 2021 had the following structure:

- Cash and cash equivalents amounted to UAH 3,214,337 thousand, or 16%, of total assets (31 December 2020: UAH 3,274,234 thousand, or 20%, of total assets);
- Loans and advances to banks amounted to UAH 368,094 thousand, or 2%, of total assets (31 December 2020: UAH 184,581 thousand, or 1%, of total assets);
- Loans and advances to customers amounted to UAH 8,874,102 thousand, or 46%, of total assets (31 December 2020: UAH 7,021,936 thousand, or 43%, of total assets);
- Investments in securities amounted to UAH 6,310,164 thousand, or 32%, of total assets (31 December 2020: UAH 5,269,798 thousand, or 32%, of total assets);
- Property, plant and equipment amounted to UAH 90,936 thousand, or 0.5%, of total assets (31 December 2020: UAH 106,215 thousand, or 0.7%, of total assets);
- Intangible assets, other than goodwill, amounted to UAH 40,984 thousand, or 0.2%, of total assets (31 December 2020: UAH 32,533 thousand, or 0.2%, of total assets);
- Right-of-use assets amounted to UAH 83,169 thousand, or 0.4%, of total assets (31 December 2020: UAH 61,314 thousand, or 0.4%, of total assets);
- Other financial assets amounted to UAH 424,712 thousand, or 2%, of total assets (31 December 2020: UAH 277,614 thousand, or 2%, of total assets).

Other non-financial assets amounted to UAH 58,176 thousand, or 0.2%, of total assets (31 December 2020: UAH 26,295 thousand, or 0.2%, of total assets).

In 2021, the Bank’s equity increased by UAH 286,621 thousand, or 27.8%, and, as at 31 December 2021, amounted to UAH 1,318,397 thousand.

Based on its performance, in 2021, the Bank received net profits in the amount of UAH 285,784 thousand, which was by UAH 136,294 thousand, or 91%, more than in 2020.

Net commission income of the Bank for 2021 amounted to UAH 597,378 thousand, which was by UAH 153,974 thousand, or 35%, more than in 2020.

Net increase (decrease) from trading in foreign currencies of the Bank in 2021 amounted to UAH 48,406 thousand, which was by UAH 951 thousand, or 2%, more than in 2020 (UAH 49,357 thousand).

Other administrative and operational expenses of the Bank in 2021 grew by UAH 123,068 thousand, or 29%, and amounted to UAH 547,859 thousand.

Depreciation and amortisation expense of the Bank in 2021 grew by UAH 14,628 thousand, or 12%, and amounted to UAH 139,490 thousand.

Employee benefit expense of the Bank in 2021 grew by UAH 86,769 thousand, or 18%, and amounted to UAH 558,505 thousand.

A key direction of the Bank’s active operations is lending to legal entities and individuals.

During 2021, the volume of loans granted (net of allowances for impairment of loans) increased by UAH 1,846,933 thousand, or 25%, against UAH 7,255,665 thousand as at 31 December 2020.

During 2021, the volume of loans granted to legal entities (net of allowance for loan impairment) increased by UAH 1,803,953 thousand, or 25%, and, as at 31 December 2021, amounted to UAH 9,000,801 thousand. The Bank provided lending to entities of trade (48% of loan portfolio to legal entities), agriculture and food processing (19%), manufacturing (12%), transport and communication (10%), construction and real estate (5%), and other (6%).

Volume of loans granted to individuals (net of allowance for loan impairment) increased by UAH 42,980 thousand, or 73%, and, as at 31 December 2021, amounted to UAH 101,797 thousand.

As at 31 December 2021, total gross value of loans granted to top 10 borrowers of the Bank amounted to UAH 1,683,440 thousand, or 18%, of total loan portfolio. In addition, as at 31 December 2021, loans to top 10 borrowers of the Bank were partially secured by the pledge of property rights to deposits in the amount of UAH 252,704 thousand.

Investments in securities as at 31 December 2021 amounted to UAH 6,310,164 thousand, which was by UAH 1,040,366 thousand, or 20%, more than as at 31 December 2020.

Securities portfolio comprised the following:

- Government debt securities of Ukraine in the amount of UAH 4,386,998 thousand;
- Deposit certificates issued by the NBU in the amount of UAH 1,731,421 thousand;
- Municipal debt securities of Ukraine in the amount of UAH 25,748 thousand;
- Debt securities issued by foreign governments in the amount of UAH 165,997 thousand.

The Bank’s liabilities increased by UAH 2,942,466 thousand, or 19%, and, as at 31 December 2021, amounted to UAH 18,167,960 thousand.

Volume of balances on current accounts for 2021 increased by UAH 2,773,620 thousand, or 28%, and, as at 31 December 2021, amounted to UAH 12,550,784 thousand, which was 69% of the Bank’s total liabilities.

As at 31 December 2021, balances on current accounts of legal entities amounted to UAH 9,669,945 thousand, or 78%, of total current accounts.

As at 31 December 2021, balances on current accounts of individuals amounted to UAH 2,880,839 thousand, or 23%, of total current accounts.

As at 31 December 2021, included in current account balances were deposits “on demand” in the total amount of UAH 185,296 thousand (31 December 2020: UAH 474,352 thousand), of which UAH 27,457 thousand belonged to individuals (31 December 2020: UAH 87,138 thousand), and UAH 157,839 thousand to legal entities (31 December 2020: UAH 387,214 thousand). Interest rates on such deposits amounted to the range from 0.01% to 9% p.a., depending on the account balance.

As at 31 December 2021, total amount of cash of the Bank’s top 10 customers on current accounts amounted to UAH 3,472,866 thousand (31 December 2020: UAH 2,674,572 thousand).

Included in current account balances were balances in the total amount of UAH 651,849 thousand (31 December 2020: UAH 567,979 thousand) placed by customers as a collateral to secure for loans and advances to customers in the total amount of UAH 496,162 thousand (31 December 2020: UAH 448,333 thousand).

Deposit portfolio of the Bank during 2021 increased by UAH 120,053 thousand, or 2.5%, and, as at 31 December 2021, amounted to UAH 4,833,196 thousand, which was 26.60% of the Bank’s total liabilities.

Deposits of legal entities amounted to UAH 2,557,690 thousand, or 53%, of total deposit portfolio of the Bank.

Deposits of individuals amounted to UAH 2,275,506 thousand, or 47%, of total deposit portfolio.

As at 31 December 2021, total amount of cash of the Bank’s top 10 customers on deposit accounts amounted to UAH 2,104,451 thousand, or 43.5% (31 December 2020: 51.0%) of total deposit portfolio.

During 2021, the Bank’s due to other banks decreased by UAH 35,190 thousand, or 44.0%, and, as at 31 December 2021, amounted to UAH 44,796 thousand, which amounted to 1% of total liabilities.

As at 31 December 2021, the largest amount of due on correspondent accounts and overnight deposits of other banks was due in the amount of UAH 30,284 thousand to one non-resident bank, which was 68% of total due on correspondent accounts and overnight deposits of other banks.

The analysis of the Bank’s financial performance evidences of the stable growth in indicators by using both quantitative (increase in assets, equity) and qualitative (increase in profits) criteria, which confirms the right strategy chosen and weighted application of approaches to the management by the Bank’s management.

One of the priority directions of the Bank’s activities for the next years is to maintain liquidity at a sufficient level and ensure timely implementation of legislative requirements and the most effective methods and liquidity management systems.

Asset management policies presuppose that the Bank’s operations are aimed at placing own and borrowed funds to receive gains and ensure the sufficient level of liquidity and solvency of the Bank. The Bank adheres to principles of weighted financial management in shaping and managing the structure of its assets and liabilities, effective management of ratio of individual sources to types of liabilities, creation of the optimal structure of balance sheet, increase in solvency, and strengthened financial resilience.

4.2. Economic indicators

Increase in the Bank’s profit in 2021 to UAH 285,784 thousand against UAH 149,490 thousand in 2020 reflected in the increased indicators of return on assets (ROA) by 1.70% compared to 2020 with 1.16% and return on equity (ROE) by 28.36% compared to 17.3%.

Equity growth rates in 2021 and 2020 of 128% and 116%, respectively, exceeded the growth rates of the Bank’s equity of 119% and 155% in relevant years.

Net interest income, before impairment losses/(recovery), on interest-bearing assets in amounted to UAH 943,049 thousand in 2021 and UAH 673,319 thousand in the previous year. Positive dynamics is observed by interest margin indicator. Trends for reducing the effective interest rate on interest-bearing assets (from 9.6% in 2020 to 8.6% in 2021) and interest-bearing liabilities (from 4.0% in 2020 to 2.7% in 2021) as a result of applying the weighted policies on placement of resources led to the increase in interest margin to 6.14% in 2021 from 5.7% in 2020.

The share of interest income in the Bank’s revenue did not change and amounted to 57%. Instead, the ratio of commission income to revenue increased from 36% in 2020 to 41% in 2021 and the share in revenue, net of interest income, from 80% to 89%, respectively.

In 2021, international rating agency Moody׳s confirmed the Bank’s rating upgraded in 2021:

- Long-term deposit rating in the national currency of B3 and short-term deposit rating of Not Prime (NP);
- Long-term deposit rating in a foreign currency of Caa1 and short-term deposit rating of NP;
- Baseline credit assessment (BCA) and adjusted BCA of b3;
- Long-term counterparty risk ratings in the national and foreign currencies (CRR) of B2 and short-term counterparty risk ratings in the national and foreign currencies of NP;
- Long-term counterparty risk assessment (CR Assessment) of B2 (cr) and short-term counterparty risk assessment of Not Prime (cr);
- Long-term deposit rating by the national scale of Baa1.ua and long-term counterparty risk rating by the national scale of A1.ua.

4.3. Liquidity and liabilities

Liquidity risk is a risk that arises from our potential inability to meet all of our payment obligations when they fall due or from the fact that we will only be able to meet those obligations at the cost of excessive efforts. The purpose of the liquidity risk management system is to ensure that the Bank can always fulfill its payment obligations and manage liquidity and funding risks within the limits of its risk appetite, as well as ensure a sufficient level of liquidity (liquidity buffer) and comply with the regulatory regulations.

Liquidity buffer. The Bank creates a liquidity buffer which comprises highly liquid assets intended to absorb an unexpected growth in liquidity needs, in particular:

- Cash at the end of 2021 amounted to UAH 1,253,734 thousand (at the end of 2020: UAH 857,762 thousand);
- Cash on correspondent account with the NBU at the end of 2021 amounted to UAH 552,838 thousand (at the end of 2020: UAH 524,160 thousand);
- Cash on correspondent accounts with other banks at the end of 2021 amounted to UAH 1,407,765 thousand (at the end of 2020: UAH 1,892,312 thousand);

- Loans and advances to banks at the end of 2021 amounted to UAH 368,094 thousand (at the end of 2020: UAH 184,581 thousand);
- Deposit certificates issued by the NBU and government loan bonds at the end of 2021 amounted to UAH 6,310,164 thousand (at the end of 2020: UAH 5,269,798 thousand).

Liquidity Coverage Ratio (LCR). Liquidity Coverage Ratio (LCR) is designed to increase the short-term resilience of the Bank's liquidity risk profile during a 30-day stress scenario. The ratio is determined as the amount of High-Quality Liquid Assets ("liquidity buffer") that can be used to increase liquidity, which is measured in relation to the total amount of net cash outflows arising both as a result of actual and contingent risks in the implementation of stress scenarios. LCR complements the internal structure of stress testing.

By maintaining the ratio above the minimum regulatory requirements, the Bank seeks to ensure the availability of sufficient liquidity resources (liquidity buffer) to mitigate short-term liquidity stress.

As at 31 December 2021, LCR by all currencies amounted to 168.8601%, with the ratio determined by the NBU of at least 100% (31 December 2020: 163.6859%).

As at 31 December 2021, LCR in foreign currencies amounted to 209.5940%, with the ratio determined by the NBU of at least 100% (31 December 2020: 172.6194%).

Net Stable Funding Ratio (NSFR). Net Stable Funding Ratio (NSFR) was implemented by the Bank as part of the requirements of the Basel Committee on Banking Supervision as a benchmark for assessing the Bank's structural funding profile. NSFR is designed to reduce medium- and long-term funding risks by requiring banks to maintain a stable funding profile for their on- and off-balance sheet activities. The ratio is defined as the amount of available stable funding (the share of equity and liabilities that are expected to be a stable source of funding) in relation to the amount of required stable funding (the existing assets with different liquidity characteristics).

As at 31 December 2021, NSFR amounted to 173.3763%, with the ratio determined by the NBU of at least 100%.

Funding structure. The Bank's main tool for monitoring and managing funding risk is a funding matrix (GAP analysis). The Funding Matrix assesses the structural profile of the Bank's funding for the period of more than one year. To create a funding matrix, all assets and liabilities relevant to funding are mapped into time segments that correspond to their contractual or simulated maturities. This allows the Bank to determine the expected excesses and shortfalls of term obligations over assets in each time period, thus, facilitating the management of potential liquidity risks. The liquidity maturity profile is based on the contractual cash flow information.

From the cumulative term profile of assets and liabilities over 1 year, it is possible to determine any long-term funded surpluses or short-term funded gaps in the Bank's maturity structure.

4.4. Financial investments

The Bank makes financial investments in reliable financial instruments with fixed yield to obtain a market level of profits at an acceptable level of risk. Decisions regarding investments of the Bank's funds in the national and foreign currencies into financial instruments are made by the Bank's collegiate bodies, in particular, the Supervisory Board, the Management Board, and Credit Committee.

Priority directions of the Bank’s investments are investing into the following financial instruments:

- Government debt securities of Ukraine;
- Municipal debt securities of Ukraine;
- Debt securities issued by foreign governments assigned with investment ratings by leading international rating agencies.

As at 31 December 2021, the Bank’s portfolio of financial investments consisted of the following groups of securities:

- Financial investments measured at fair value through other comprehensive income:
  - Government debt securities of Ukraine in the national currency – UAH 3,770,797 thousand;
  - Government debt securities of Ukraine in a foreign currency – UAH 616,201 thousand;
  - Municipal debt securities of Ukraine in the national currency – UAH 25,748 thousand;
  - Debt securities issued by foreign governments assigned with investment ratings by leading international rating agencies – UAH 165,997 thousand.
- Financial investments measured at amortized cost:
  - Deposit certificates issued by the National Bank of Ukraine – UAH 1,731,421 thousand.

4.5. Environmental aspects

Disposal of mercury-containing waste, as well as such harmful and environmentally dangerous motor vehicle components as batteries and tires, is one of the priority issues in the topic of environmental protection in our country.

Nowadays, fluorescent energy-saving light sources have almost completely replaced traditional incandescent lamps. They consume much less electricity and provide a much brighter and pleasant spectrum of light, however, they contain dangerous mercury compounds, so the disposal of fluorescent lamps must be carried out in accordance with the established rules, and it is not allowed to throw them into containers intended for ordinary household waste. As with destruction of other harmful waste, the disposal of daylight lamps should be entrusted to specialized enterprises that have the appropriate license.

The Bank has entered into agreements on disposal of fluorescent lamps with such specialized enterprises and disposes of used lamps, thus, complying with the safety regulations and preventing environmental pollution, which is a very important task for maintaining the ecological balance. The problem of collecting and recycling spent car batteries is also very significant at the moment.

End-of-life car batteries pose a risk to human health and the environment due to the materials used in the battery’s manufacture. Two types are mainly used: acidic and alkaline. Acidic ones are much more common. Their composition contains dilute sulfuric acid, lead, and a number of other metals. In alkaline batteries, harmful substances include alkali, nickel, and some other components. Even simple plastic from the battery case harms the nature.

The battery can be called the most short-lived part of the car, its average operating time is in total 30 months. In the current conditions, the only reasonable way out of the situation is the organization of a centralized system for collecting spent batteries and other sources of secondary lead scrap and their complex processing, with the receipt of marketable lead and lead alloys.

Thus, the disposal of car batteries is extremely important.

Used batteries comprise the following components:

- Spent lead (in the form of lead plates used as electrodes);
- Electrolyte (battery sulfuric acid with the concentration of up to 40% by mass in a charged state and up to 24% in a discharged state);
- Polymer containers with residues of toxic substances (plastic tanks or a body made of ebonite or polypropylene, separators made of polyvinyl chloride that separate plates with different signs of charge).

All components of spent batteries are dangerous for the environment and human health.

The Bank disposes of used car batteries and hands them over to recycling by specialized enterprises with which the agreements have been concluded, thus, contributing to the fact that the disposal is carried out without harming the surrounding environment, the human body, and in accordance with the legislation.

Also, collection of secondary raw materials (wastepaper) contributes to optimization of the use of the planet's resources and improvement of the environment in cities. Documents with an expired storage period are transferred by the Bank for processing. Given that all major cities have pollution problems, and that up to half of the city's waste is paper products that can be recycled, this challenge of recycling is of great importance. In addition, the paper recycling process requires significantly less electricity than creating new products from wood, which is very good for the environment and the world taken as a whole.

The Bank also disposes of worn-out office and small household appliances (lamps, kettles, safes, calculators, document shredders).

This equipment and devices that have become unusable can be a source of toxic substances that poison the soil and air (plastic housings, lead, and other harmful substances threaten the health of people).

In addition, office equipment and household appliances have electronic filling, sometimes quite complex. Such components are a source of gold, silver, and copper. The process of such useful disposal involves several stages.

The body is crushed under a press, then, under the influence of a magnetic field, iron is removed from the mass, and, in the end, everything is burned to leave precious metals.

A similar procedure is possible only when using complex and technological equipment, which is available only at professional companies for the disposal of household and computer equipment.

By using the services of such companies, the Bank contributes to preservation of the environment and reuse of valuable raw materials in new products.

5. Staff policies

Staff policy is an important component of the Bank's Development Strategies.

As at the end of 2021, the number of the Bank's employees amounted to 1,217 persons, of which 68% were women and 32% – men. Almost 81% of the Bank's employees have complete higher education. Over 72% of employees have the age in the range from 25 to 49 years old, with the average age of employees amounting to 42 years old.

Concept of human capital management is aimed at creating a system that is based not on administrative methods, but on economic incentives and social guarantees focused on bringing closer the employee's interests and the Bank's goals in achieving high labor productivity and obtaining the highest economic results from the Bank's operations.

A key task in managing people is to mobilize them for continuous and consistent improvement of the Bank's economic performance, which is realized through:

- Selecting qualified and interested employees;
- Using effectively mastery and skills of staff;
- Improving the system of incentives;
- Increasing the degree of work satisfaction by all categories of employees;
- Developing and supporting at a high level the system of advanced training of personnel;
- Promoting good moral environment in the organization;
- Managing staff careers;
- Influencing the creative activities of staff and assisting in realization of innovation plans;
- Improving methods of staff evaluation;
- Ensuring a high standard of employees' life, which makes desirable the work in the Bank.

One of the directions in staff policies is to improve qualifications of the Bank's employees by making them aware of recent achievements in banking so that they could implement those achievements in their day-to-day activities. The Bank has high requirements to professional and personal qualities of its employees: proactivity, responsibility, corporate spirit, and culture. Severe competition in the banking market requires a consistent control over compliance of staff qualifications with new trends and tasks. In this connection, the Bank's management pays special attention to training of specialists, retraining, and improving their qualifications.

Guarantees of equal relations between the Bank and employees are ensured by way of:

- The Bank's complying with general mandatory rules of conduct and corporate ethics of the Bank, recognizing a significant role of leaders and employees of the Bank in ensuring the success of the Bank's activities outlined in the Corporate Code;
- Maintaining staff policies that presuppose equal rights in the process of electing candidates to members of the Supervisory Board and the Management Board of the Bank, other executives and employees to occupy positions in the Bank, possibilities for career growth, receiving remuneration with reference to professional achievements and personal contribution to the Bank's activities and, in the case of existence of the circumstances that lead to imposing penalties, complying with the objective assessment of actions undertaken by a leader or another employee;

- The Bank’s ensuring equal rights to taking a position and appointing people to positions irrespective of their sex, nationality, ethnic and social background, sexual orientation, religious or political beliefs, family status of employees;
- Creating such working conditions that are safe in terms of labor and health protection and other safeties;
- Creating corporate culture, the culture of risk management, in particular, a required atmosphere (“tone at the top”);
- Fulfilling mutual obligations, adhering to rights and responsibilities in accordance with internal regulations;
- Shaping possibilities for improvement of qualifications, training, obtaining knowledge by the Bank’s employees at the cost of the Bank, as well as promoting this process at the cost of own funds of employees.

The Bank ensures for timely payment of payroll to the Bank’s executives and employees, tax payment, compensations for business trips, vacations, and other guarantees in accordance with the legislation and internal regulations.

The Bank has created a standing commission responsible for reviewing knowledge regarding labor protection of the Bank’s employees. Health and safety briefings, trainings, and testing of the Bank’s employees are systematically held. Persons who have not achieved the age of 21 years old shall be mandatorily medical examined in health care institutions, and motor vehicle drivers shall pass through regular medical inspections before work. In accordance with the legislation, the Bank has approved and agreed the Comprehensive Measures on Achieving Set Ratios and Improving the Existing Labor Protection Conditions that are performed in full. The Bank purchases specialized uniforms and personal safety means for the Bank’s employees responsible for cash collection or security.

The Bank’s strategies in the area of hygiene and labor safety determine policies, objectives, targets, key principles, and directions of the Bank’s activities in creating appropriate and safe working conditions, avoiding injuries, professional diseases, traffic accidents, and occupational accidents.

In the conditions of the COVID-19 pandemic, the Bank’s management creates all conditions to prevent the Bank’s employees from infection contamination. The Bank is not planning to reduce the number of employees or change their remuneration.

The Bank’s attitude towards issues of respect to human rights, protection of employees’ rights, ensuring equal rights and relationships between employees and the Bank is determined by internal documents, in particular, the Corporate Code of PJSC “BANK VOSTOK” which presupposes formalizing in the Bank’s activities general obligatory norms of behavior and corporate ethics, specifically:

- Complying with human rights and personal dignity, creating equal possibilities for executives and other employees. The Bank values its executives and other employees, creates for them working conditions in accordance with the regulations on labor protection, ensures the compliance with the legislation requirements to rights of executives and other employees in the sphere of labor protection, encourages them for successes in work, and expects from them high standards of corporate ethics and professional achievements.

- Relationships between executives and other employees, irrespective of the position occupied or area of activities, are built in compliance with the principle of mutual respect and collaboration, discipline and subordination, openness and friendliness, team work and focus on cooperation, sociability of management in respect of other employees, ensuring equal opportunities for all subordinates in fulfilling their obligations, supporting the initiative, open-mindedness, and fair evaluation of employees' deliverables, granting possibilities, without a risk of punishment, for confidential notification ("whistle-blowing") about inappropriate behavior/violation, including through notifying to the Supervisory Board.
- Prohibiting that employees display any form of disrespectful or offensive attitudes towards each other and fail to comply with general obligatory norms of behavior and corporate ethics.

The Bank's employees form a basis of its reputation. Therefore, relationships between the Bank and its employees are built, on the one hand, on ensuring the Bank's respect to human rights, equality, protection of employees' rights and, on the other hand, on making the employees aware that any non-ethical or non-social actions committed by them on working places or off-work, unacceptable behavior may inflict harm to the Bank's reputation.

6. Corporate governance and social responsibility

6.1. Corporate governance

The document that defines and secures key principles and standards of the Bank's corporate governance, principles for protecting rights and interests of shareholders, depositors, and other stakeholders, tools of management and control, principles of openness and transparency in its activities is the Code of Corporate Governance of PJSC "BANK VOSTOK", as approved pursuant to the Shareholder's Decision No. 1 dated 29 April 2021 and Regulation on Organization of Corporate Governance in PJSC "BANK VOSTOK", as approved pursuant to Resolution of the Bank's Supervisory Board.

Minutes No. 32 dated 15 June 2021.

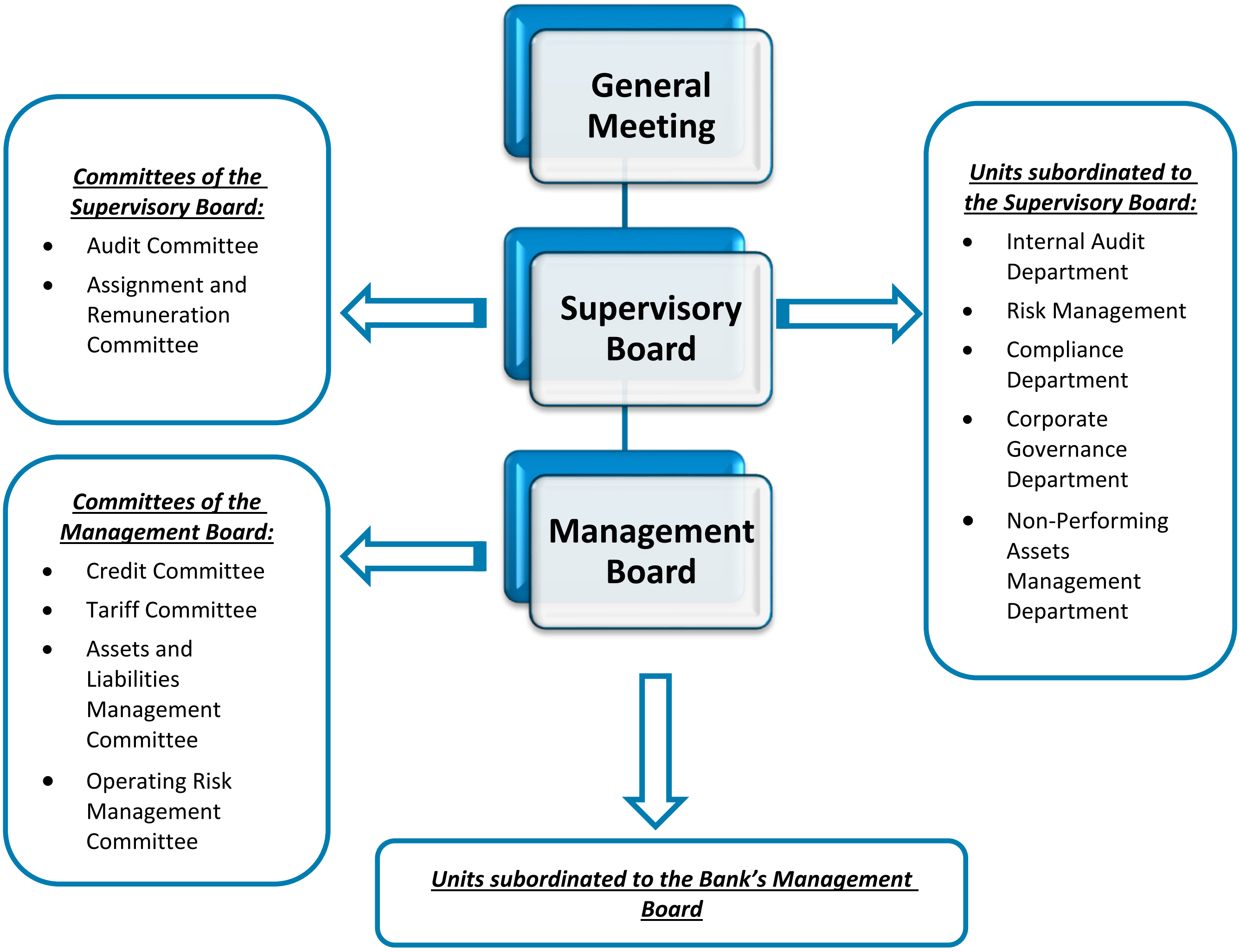
Code of Corporate Governance of PJSC "BANK VOSTOK" is placed on the Bank's official website at: https://bankvostok.com.ua/public.

Key principles of the Bank's corporate governance include the following:

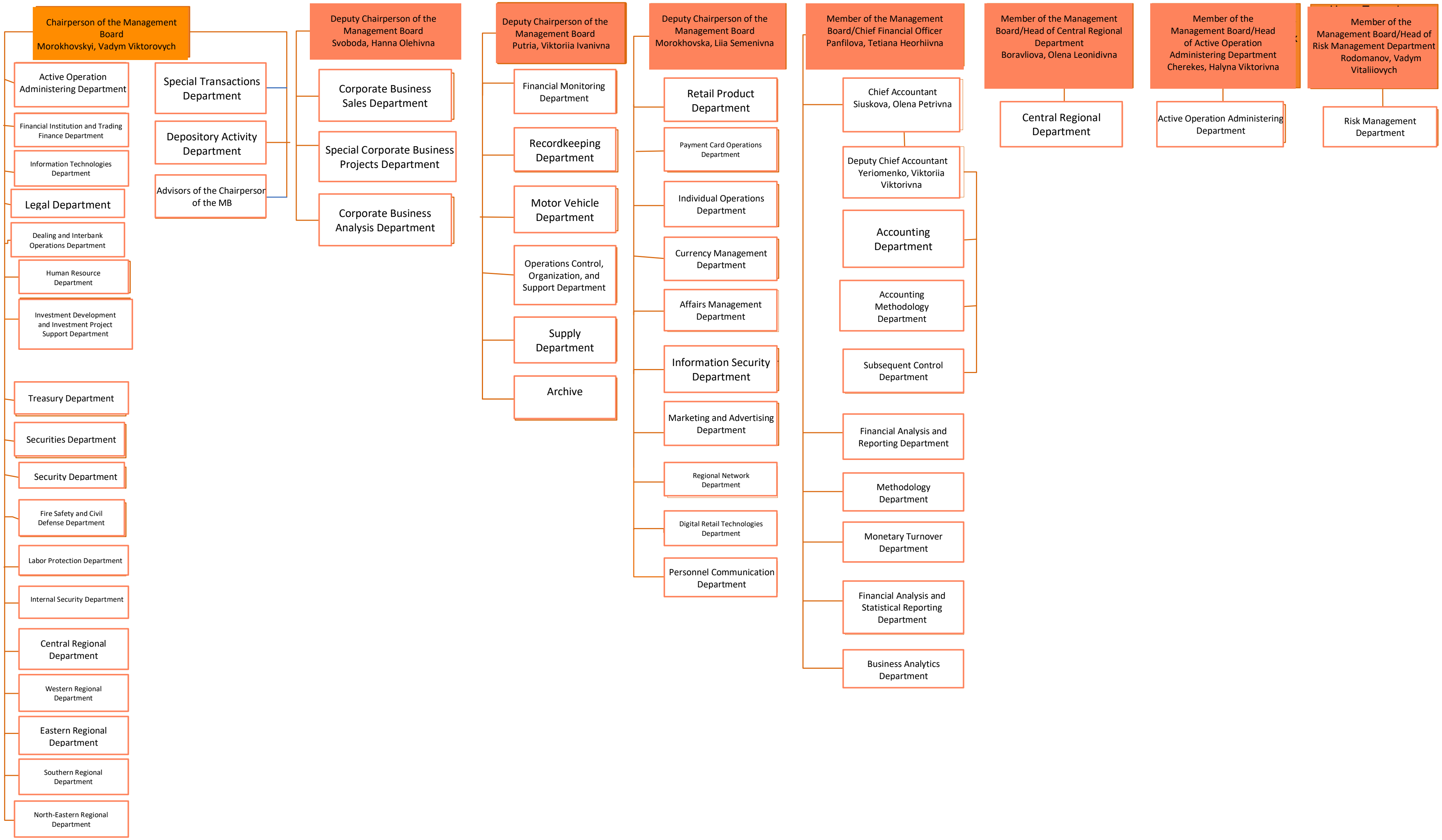
- Principle of ensuring rights and interests of shareholders, customers, and other stakeholders;
- Principle of effective management – available effective internal control system within the Bank that ensures strategic, operating, and current control over its financial and business activities, creating conditions for timely information exchange and efficient interaction among the Bank's management bodies so that the executives could operate on the basis of all required information, in good faith and reasonably in the interests of shareholders and customers, and employees of the Bank could actively participate in the process of corporate governance and increase their interest in effective operations and ultimate results;
- Principle of effective segregation of authorities among management bodies – the Bank's corporate structure having independent Supervisory Board in place and its subordinate qualified executive body that ensures the effective management of current activities – the Management Board, as well as rational and clear segregation of authorities between them, strict risk management, strong internal controls, and compliance with regulations;

- Principle of effective control over financial and business activities – available independent system of accountability and control over financial and business activities of the Bank through both engaging an external auditor and creating an internal audit function;
- Principle of corporate social responsibility – complying with the statutory rights and legitimate interests of stakeholders, cooperating actively with stakeholders on developing the wealth, working places, and ensuring the Bank's financial stability;
- Principle of ownership structure transparency and information openness – ensuring the disclosures and transparent activities, including about the Bank's financial position, its economic performance, significant events, ownership structure, and management to ensure a possibility of taking weighted decisions by shareholders and customers of the Bank;
- Principle of compliance with legal and ethical norms – complying with the requirements of the effective legislation and internal regulations of the Bank, adhering to ethical norms of business behavior;
- Principle of fair remuneration – the amount and types of remuneration depending on the volumes and efficiency of the Bank's operations, with reference to strategic objectives and current needs of the Bank;
- Principle of proficiency – understanding by members of the Supervisory Board and members of the Management Board, other employees of the Bank of their authorities and responsibilities, complying with high professional standards in performing their functional duties.

Existing corporate governance model as at 31 December 2021



Existing corporate governance model as at 31 December 2021 (continued):



Anti-corruption policies are an integral part of the Bank’s Corporate Code. The Bank’s anti-corruption policies are based on the principles and measures established by the Corporate Code.

Anti-corruption policies, inter alia, presuppose the following:

- Creating effective mechanisms, procedures, controls, and other measures aimed at combating corruption;
- Shaping a zero tolerance to corruption among executives and other employees;
- Shaping a common understanding of the principles of the Anti-Corruption Policies among executives and other employees, customers and counterparties;
- Minimizing risks of involvement of the Bank, its executives, and other employees in corrupt practices;
- Making the Bank’s management bodies aware of the corruption crimes committed by executives and other employees of the Bank and the measures taken in response.

Anti-corruption compliance is an integral part of the Bank’s compliance system.

Main measures to prevent corruption in the Bank’s activities are as follows:

- Implemented control mechanisms to ensure compliance by executives and other employees with the requirements of the legislation on prevention and counteraction of corruption during the fulfillment of their functional duties;
- Restrictions defined by the Bank’s Corporate Code regarding the implementation of representative expenses/representative events and giving/receiving gifts by executives and other employees of the Bank during the fulfillment of their official duties;
- Established prohibitions, norms, and requirements in order to prevent abuse by executives and other employees during interaction with the state authorities, controlling bodies, and their officials, officials of customers and counterparties;
- Trainings and implemented information dissemination measures regarding the Bank’s anti-corruption actions;
- Enshrining the obligation of employees to immediately report attempts to induce them to commit a corruption offense, about corruption offenses committed by other employees/executives or other persons in relation to the Bank or in the interests of the Bank in relation to other persons.

In its activities, the Bank adheres to the principle of non-acceptance of corruption, i.e. “zero tolerance”, inevitability of punishment for any manifestation of corruption and bribery.

At least once a year, the Bank carries out a separate assessment of corruption risk based on a combination of main categories of sociological indicators of corruption which are used in international and national practices.

To prevent participation or use of the Bank and its employees in corruption, the Bank ensures control over employees’ compliance with the policy requirements regarding the prevention and counteraction of corruption, bribery, and abuse during the fulfillment of their functional duties, which organizationally has three levels, complies with the internal control policies, and risk management of the Bank.

6.2. Charity and sponsorship support

During 2021, payments to charitable and sponsorship aid amounted to UAH 7,191 thousand, of which:

- Recurring charitable assistance to chess organizations, including the Union of Chess and Checkers Clubs and the Odesa City Chess Federation to conduct different chess tournaments for children, as well as chess players of all age categories.
- Charitable assistance to PU “Soccer Association of Mykolaivska Region” to develop and popularize football among broad population, conduct different soccer championships and tournaments.
- Assistance to an orphanage in Odesa to purchase food products for children.
- Assistance to people suffering from serious diseases.
- Assistance to Charitable Foundation “Myloserdia Viktor”, through which the assistance has been provided to many health care institutions, in particular:

  - Janusz Korczak Institute for Medical Rehabilitation of Children with Central Nervous System Lesion.
  - Municipal Non-Profit Enterprise (MNPE) “Children’s City Clinical Hospital No. 3” – Purchases of medical supplies and tests for virus detection required for health improvement.
  - MNPE “Odesa Regional Oncological Dispensary” of the Odeska Region Council – Charitable aid to repair the premises of polyclinic.
  - MNPE “City Clinical Hospital No. 1” of the Odesa City Council – Purchase of syringe pump “Biomed” and oxygen concentrator “Biomed”.
  - MNPE “City Clinical Infectious Hospital” of the Odesa City Council – Purchase of syringe pump DSH-10.
  - MNPE “City Clinical Hospital No. 10” of the Odesa City Council – Purchase of infusion pump “Biomed” and bed hospital electric “Biomed”.
  - MNPE “City Hospital No. 5” of the Odesa City Council – Purchase of infusion pump “Bimed”, portable medical suction apparatus “NEW ASKIR”, and invalid carriage “MODERN”.
  - MNPE “City Hospital No. 8” of the Odesa City Council – Purchase of syringe pump “Biomed” and oxygen concentrator “Biomed”.

- Charitable assistance to CF “Corporation of Monsters” to purchase oxygen concentrators to be transferred to base hospitals in Odesa and Odeska Region.
- Assistance to Association of Jewish Organizations and Communities “Vaad of Ukraine” to assist low-income individuals and purchase an oxygen concentrator.
- The Bank will continue undertaking efforts in the fight against the pandemic and respond in a timely manner to appeals for emergency assistance to hospitals, charitable funds, and Ukrainian people who are fighting chance to live.
- Charitable assistance to support the Ukrainian culture and popularize the events organized by SE “Kharkiv National Opera and Ballet House”.
- The Bank has the status of a General Partner of the Kharkiv Opera House.
- Assistance to Charitable Organization “Golden Violins” to arrange and prepare the Seventh International Musical festival “Golden Violins” that was held in the city of Odesa in the period from 12 September to 19 September 2021.

- Assistance in payment of membership fee by the National Odesa Philharmonic Orchestra in the arrangement of Opera Europe, support of the Seventh International Festival BLACK SEA MUSIC FEST in September 2021, and assistance in the organization of the cycle “Christmas Meetings: ODESA VIOLIN FEST”.
- Assistance to the Odesa State Musical Lyceum named after Stoliarskyi for arranging cultural events with the participation of the Lyceum graduate, a disciple of David Oistrakh.
- Benefit in the amount of UAH 100,000 to LLC “Exclusive-Travel” for arranging the holiday concert in the Odesa National Academic Opera and Ballet Theater devoted to 30 years of Ukraine’s Independence.
- Charitable assistance to CO “Noah’s Ark Ukraine” to arrange the festival (concert) “Noah’s Ark Ukraine: Ten Centuries of Ukrainian Music in One Concert, Music Event of the Year” devoted to commemorate 30 years of Ukraine’s Independence.
- Assistance to IE Rozdorozhnyi, I. A. for financing shoot and post-production of the Ukrainian film “The Illusion of Control”.
- Support to ME “Odesa Regional Puppet Theater” for arranging a performance devoted to the Holocaust in Odesa and the whole world.
- Assistance to LLC “IA “Media Inform” in arranging and creating the New-Year Lineup.
- Assistance to CO “Cultural Platform” for the purpose of conducting the Odesa International Contest of Violinists that was held in the period from 7 May to 13 May 2021.
- Assistance to the Odesa National Academic Opera and Ballet Theater in conducting the sixth arts festival “Mellow Season in Odesa Opera” aimed at promoting Ukrainian and world classical art and confirming the authority of Ukraine as a powerful European art community.
- Charitable assistance to MI “Odesa Art Museum” for the purpose of preserving and studying the unique art collection, promoting Odesa and national art at the local and international levels, arranging varied cultural events and other activities in the field of culture.
- Assistance to Charitable Organization “Jewish Fund “Unity of Tribes of Israel” to implement the Fund’s programs, such as assistance to socially unprotected people: persons with special needs, pensioners, children, incomplete and multi-child families. To perform its mission, the Fund implements special purpose programs related, in the first hand, to providing timely medical help, purchasing medicine and food products.
- Assistance to the Mykolaiv Jewish Religious Community to arrange and hold national holidays, publish the newspaper “Yakhad”, and other religious activities.
- Assistance to Public Organization “World Club of Odesa Residents”. The Club establishes and develops ties among Odesa residents irrespective of their actual place of residence and citizenship, consolidates and coordinates efforts of Odesa residents with the purpose of reviving and preserving the City of Odesa, with the main direction aimed at developing and implementing programs in the areas of culture, science, arts, environmental protection, health care, human rights protection, charity, and other programs directly related to the life and activities of Odesa.
- Assistance to Public Union “BUSINESS Incubator GROUP” to support entrepreneurship development of small and medium business.
- Financial assistance to CO “Center for Project Initiatives “DIRECT” for the purpose of assisting in the development of small and medium entrepreneurship.
- Benefit to Association “Independent Associations of the Banks of Ukraine as a special purpose contribution to finance the PR campaign aimed at combating the implementation of destructive mechanisms in withdrawing banks from the market and satisfying claims of those banks’ lenders.

- Sponsorship support to CO "Architectural Seasons" in realizing the Organization's statutory goals. This civic organization has been established for the purpose of satisfying and protecting legitimate, social, economic, public, cultural, and other joint interests of the Organization's members and citizens of Ukraine, as well as joining the efforts aimed at ensuring the perspective development of architecture, design, and construction in Ukraine.
- Financial assistance to LLC "D GROUP EXPO-2030" for the purpose of obtaining a victory for Ukraine (city of Odesa) in the contest of selecting candidate countries for holding the World Exhibition EXPO-2030.

Also, there were other charitable payments made to legal entities and individuals.

Authorized for issue by the Management Board and signed on its behalf on 28 October 2022.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» І.К 26237202 УКРАЇНА м. ДНІПРО

Morokhovskyi, Vadym Viktorovych,
Chairperson of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant