JOINT STOCK COMPANY
“FIRST UKRAINIAN INTERNATIONAL BANK”

Financial Statements

for the Year Ended 31 December 2022,
together with Independent Auditor’s Report

and Management Report

Table of contents

Financial statements

Notes to the financial statements

LLC "Deloitte & Touche USC"
48, 50A, Zhylyanska Street
Kyiv, 01033, Ukraine

Tel.: +38 (044) 490 90 00
Fax: +38 (044) 490 90 01
deloitte.ua

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK":

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and 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 Qualified Opinion

As at 31 December 2021 the Bank had investments in 41,048 class C common stocks of Visa that were not recognized in the statement of financial position. In December 2022, the Bank has converted all 41,048 class C common stocks Visa to 164,192 class A common shares and sold them in the open market. The Bank recognized the class A common shares as financial assets designed through profit or loss at the date of receipt cash from selling and, accordingly recognized the gain from initial recognition of financial assets measured at fair value through profit or loss in its statement of profit or loss for the year ended 31 December 2022 in total amount of UAH 1,242,933 thousand and related tax expenses in amount of UAH 223,102 thousand. Had the Bank recognized investments in 41,048 class C common stocks of Visa in previous accounting periods, investments in securities as at 31 December 2021 should have been increased by UAH 972,786 thousand, retained earnings should have been increased by UAH 797,685 thousand, deferred tax liabilities should have been increased by UAH 175,102 thousand. For the year ended 31 December 2022 net increase from the financial instruments at fair value through profit and loss should have been increased by UAH 270,147 thousand and gain on initial recognition of financial assets recognized at fair value through profit or loss should have been decreased to zero with respective decrease in income tax expense by UAH 175,102 thousand, and information disclosed in notes related to these shares should have been adjusted accordingly.

As at 31 December 2022 and 2021 the Bank had investments in 141,170 class B common stocks of Mastercard that were designated as financial assets at fair value through other comprehensive income and were carried in the statement of financial position at cost in the amount of UAH 52 and UAH 38 respectively as part of investments in securities, which is constitutes a departure from IFRSs. Had the Bank measured Mastercard stock at fair value, investments in securities as at 31 December 2022 and 2021 should have been increased by UAH 1,778,314 thousand and UAH 1,385,002 thousand, respectively, reserve of gains and losses on financial assets measured at fair value through other comprehensive income as at 31 December 2022 and 2021 should have been increased by UAH 1,458,218 thousand and UAH 1,135,701 thousand, respectively, deferred tax liabilities as at 31 December 2022 and 2021 should have been increased by UAH 320,097 thousand and UAH 249,300 thousand, respectively, gains (losses) on financial assets measured at fair value through other comprehensive income, before tax, for the years ended 31 December 2022 and 2021 should have been increased by UAH 393,312 thousand and decreased for UAH 1,654 thousand, respectively, income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income for the years ended 31 December 2022 and 2021 should have been increased by UAH 70,796 thousand and decreased for UAH 298 thousand, respectively and information disclosed in notes related to these shares should have been corrected accordingly.

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 qualified 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 qualified 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 Note 2 and 3 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 3, 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 3 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 Matters

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 matters described in the *Material Uncertainty Related to Going Concern* section and *Basis for Qualified Opinion* 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 on loans and advances to customers Allowances for Expected Credit Losses (ECL) represent management's best estimate of the 12-months ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets at the reporting date. They are calculated on a collective basis for portfolios of loans with similar credit risk characteristics and on an individual basis for significant loans on Stage 2 and loans on Stage 3. The calculation of both collective and individual allowances for ECL is inherently judgmental. Collective ECL are calculated using statistical models, which approximate the impact of current and future economic and credit conditions on large portfolios of loans. Risk parameters are subject to the management judgment and the models are reviewed for their relevance. The individual assessment requires judgment to estimate the expected future cash flows scenarios related to that loan. In addition, key areas of judgments and estimates regarding the assessment of allowance for ECL on loans and advances to customers comprise: • Assessment of a significant increase in credit risk and risk of default for determining the stage of impairment of loans and advances to customers; • Measurement of expected credit losses taking into account macroeconomic forecasts and historical information on credit losses incurred; Allowances for ECL is determined as a key audit matter due to significance of the loans to customers balance and significant judgements used in calculations as discussed in Note 5, Note 9 and Note 25.	Our audit procedures have included the following: • Updating understanding of the Bank's processes and control procedures for determination of a significant increase in credit risk and the risk of default, assessment of expected credit losses on loans and advances to customers. • For collective ECL allowances, the appropriateness of the models and methodology used for material portfolios was assessed with involvement of credit risk and actuarial experts by reference to IFRS 9 "Financial instruments" and market practices. We assessed the appropriateness of management's judgments in respect of methodologies, segmentation, identification of significant increase in credit risk and defaults, including days past due (DPD), time period used for probability of default and recovery rates assessment, including macroeconomic adjustment. On a sample basis, we analyzed determination of internal ratings of borrowers as at the reporting date, changes in contractual terms and solvency of borrowers, analyzed the impact of war on their performance and solvency. We checked on a sample basis completeness and accuracy of historical data used as inputs in collective models and checked forward-looking inputs to external macroeconomic forecast. • For individual ECL allowances, the appropriateness of provisioning methodologies was assessed for a sample of loans across the portfolio selected on the risk basis. An assessment was performed in respect of the amount of ECL recognized based on the detailed loan and counterparty information in the credit file and open sources, including the expected future cash flows scenarios applied. Where appropriate, we involved valuation experts to review fair value assessment of the collateral. • We have checked completeness and accuracy of the relevant notes to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, which also includes corporate governance report (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the securities issuer's annual information, which also includes corporate governance report, which is expected to be made available to us after that date.

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. As described in the *Basis for Qualified Opinion* section above, the Bank had investments in equity shares and did not measure these shares at fair value in the prior accounting period. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the management report affected by this departure.

When we read the securities issuer's annual information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 auditor of the Bank by those charged with governance represented by the Supervisory Board on 22 July 2021. In view of the previous renewals and reappointments, we conducted audit from 23 January 2023 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-audited 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, except matters described in the *"Other Information"* section.

- 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, except matters described in the *"Other Information"* section.

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 2022 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 2022 the Bank does not has 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 2022 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/2021/79746 dated 25 October 2021. The audit was conducted in the period from 23 January 2023 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"

27 April 2023

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

(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Assets			
Cash and cash equivalents	6	46,455,869	21,326,213
Loans and advances to banks	7	3,490,916	2,802,502
Investments in securities	8	12,586,771	23,142,132
Loans and advances to customers	9	43,770,237	53,086,793
Current tax assets		32,962	–
Derivative financial assets	18	–	10,814
Other financial assets	12	2,419,697	1,625,557
Other non-financial assets	12	330,806	281,383
Property, plant, and equipment	10	1,710,376	1,698,168
Investment property	10	59,168	62,099
Intangible assets, other than goodwill	10	654,811	255,846
Right-of-use assets	11	259,282	344,117
Deferred tax assets	24	203,325	13,200
Total assets		**111,974,220**	**104,648,824**
Liabilities			
Due to the Central Bank	13	4,188,304	5,693,029
Due to others banks	14	2,324,222	1,445,197
Customer accounts	15	90,299,888	80,871,781
Derivative financial liabilities	18	93,807	8,204
Lease liabilities	16	274,383	379,968
Current tax liabilities		–	257,844
Other financial liabilities	17	2,546,201	2,508,955
Other non-financial liabilities	17	551,034	922,553
Total liabilities		**100,277,839**	**92,087,531**
Equity			
Share capital	19	4,780,595	4,780,595
Share premium		101,660	101,660
Revaluation surplus		430,759	437,533
Reserve of gains and losses on financial assets measured at fair value through other comprehensive income		(350,345)	124,623
Statutory reserve		2,909,909	2,909,909
Retained earnings		3,823,803	4,206,973
Total equity		**11,696,381**	**12,561,293**
Total liabilities and equity		**111,974,220**	**104,648,824**

Signed on behalf of the Management Board on 27 April 2023 by:

S. P. Chernenko (Chairperson of the Management Board)

K. O. Shkoliarenko (Chief Financial Officer)

O. O. Poleshchuk (Chief Accountant)

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

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of Profit or Loss for the year ended 31 December 2022

(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Interest revenue calculated using effective interest rate method	20	14,512,778	11,643,088
Interest income	20	382,603	191,009
Interest expense	20	(4,740,903)	(2,603,206)
Net interest income		**10,154,478**	**9,230,891**
Commission income	21	3,205,014	3,166,429
Commission expense	21	(1,183,751)	(1,119,867)
Net commission income		**2,021,263**	**2,046,562**
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	6, 7, 8, 9, 12 28	(10,338,901)	(763,463)
Net increase (decrease) from trading in foreign currencies		1,264,678	160,498
Net increase (decrease) from foreign exchange translation		166,962	191,191
Net increase (decrease) from operations with debt financial instruments measured at fair value through other comprehensive income		(50,656)	13,858
Net increase (decrease) from revaluation of investment property	10	(249)	1,673
Gains (losses) on change in fair value of derivatives		177,491	(59,557)
Net increase (decrease) from financial instruments at fair value through profit or loss		(2)	(1,225)
Gains (losses) arising on initial recognition of financial assets	5	1,243,421	-
Gains (losses) arising on initial recognition of financial assets at interest rates above or below market		1,064	1,062
Gain (loss) arising from derecognition of financial assets measured at amortised cost		2,109	(950)
Impairment gain and reversal of impairment loss (impairment loss) for non-financial assets	12, 28	(80,449)	(2,021)
Other gains (losses)	22	231,755	74,042
Profit (loss) from operating activities		**4,792,964**	**10,892,561**
Operating expense	23	(5,278,302)	(5,781,289)
Profit (loss) before tax		**(485,338)**	**5,111,272**
Tax income (expense)	24	87,615	(923,680)
Profit (loss) for the reporting period		**(397,723)**	**4,187,592**
Earnings per share (UAH per share)	30	**(27.77)**	**292.35**

Signed on behalf of the Management Board on 27 April 2023 by:

S. P. Chernenko (Chairperson of the Management Board)

K. O. Shkoliarenko (Chief Financial Officer)

O. O. Poleshchuk (Chief Accountant)

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

(In Ukrainian Hryvnias and in thousands)

	2022	2021
Profit (loss) for the reporting period	**(397,723)**	**4,187,592**
Other comprehensive income		
Components of other comprehensive income that will be reclassified to profit or loss, net of tax		
Gains (losses) on financial assets measured at fair value through other comprehensive income, before tax	(629,885)	6,219
Amounts removed from equity and adjusted against fair value of financial assets on reclassification out of fair value through other comprehensive income measurement category, before tax	50,656	(13,858)
Income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income	104,261	1,375
Total other comprehensive income/(loss) that will not be reclassified to profit or loss, after tax	**(474,968)**	**(6,264)**
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		
Revaluation of premises	9,530	-
Income tax related to components of other comprehensive income	(1,751)	-
Total other comprehensive income/(loss) that will not be reclassified to profit or loss, net of tax	**7,779**	**-**
Other comprehensive loss for the year, net of tax	**(467,189)**	**(6,264)**
Total other comprehensive income/(loss) for the reporting period	**(864,912)**	**4,181,328**

Signed on behalf of the Management Board on 27 April 2023 by:

S. P. Chernenko (Chairperson of the Management Board)

K. O. Shkoliarenko (Chief Financial Officer)

O. O. Poleshchuk (Chief Accountant)

(In Ukrainian Hryvnias and in thousands)

	2022	2021
Cash flows from (used in) operating activities		
Interest received	13,646,770	11,939,356
Interest paid	(4,690,264)	(2,542,475)
Commission income received	3,162,954	3,159,364
Commission expenses paid	(1,177,175)	(1,095,800)
Net increase/(decrease) from operations with foreign currencies	1,264,678	160,498
Net increase/(decrease) from operations with financial instruments at fair value through profit or loss	1,517,308	(79,334)
Other cash receipts from operating activities	94,038	82,101
Administrative expenses and other paid operating expenses	(4,680,602)	(4,825,076)
Income taxes paid	(290,804)	(807,972)
Net cash flows from (used in) operations	**8,846,903**	**5,990,662**
Net (increase)/decrease in operating assets		
Loans and advances to banks	292,113	(1,414,154)
Investments in securities*	8	72,728
Loans and advances to customers	3,591,758	(16,273,652)
Other financial assets	(625,891)	(1,079,191)
Other non-financial assets	(11,547)	692
Net (decrease)/increase in operating liabilities		
Due to the Central Bank	(1,499,500)	1,500,000
Due to others banks	157,764	285,299
Customer accounts	1,130,171	25,434,014
Debt securities issued by the bank	–	(116)
Other financial liabilities	271,028	745,974
Other non-financial liabilities	(511,776)	405,983
Net cash flows from (used in) operating activities	**11,641,031**	**15,668,239**
Cash flows from investing activities		
Purchases of property, plant, and equipment	(433,844)	(406,224)
Proceeds from sales of property, plant, and equipment	4,027	26,051
Purchase of intangible assets, other than goodwill	(702,158)	(207,836)
Proceeds from sales of investment property	–	6,074
Purchase of securities	(39,572,817)	(157,464,031)
Proceeds from sale of investments in securities	49,734,649	152,116,041
Net cash flows from (used in) investing activities	**9,029,857**	**(5,929,925)**
Cash flows from financing activities		
Dividends paid (Note 19)	–	(1,304,046)
Payments of lease liabilities	(113,018)	(154,242)
Net cash flows from (used in) financing activities (Note 31)	**(113,018)**	**(1,458,288)**
Effect of exchange rate changes on cash and cash equivalents	4,579,289	(1,486,847)
Impact of expected credit losses on cash and cash equivalents	(7,503)	(1,804)
Net increase (decrease) in cash and cash equivalents	**25,129,656**	**6,791,375**
Cash and cash equivalents at the beginning of the period	21,326,213	14,534,838
Cash and cash equivalents at the end of the period (Note 6)	**46,455,869**	**21,326,213**

* *Investments in securities measured at fair value through profit or loss*

Signed on behalf of the Management Board on 27 April 2023 by:

S. P. Chernenko (Chairperson of the Management Board)

K. O. Shkoliarenko (Chief Financial Officer)

O. O. Poleshchuk (Chief Accountant)

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

(In Ukrainian Hryvnias and in thousands)

	Share capital	Share premium	Revaluation surplus	Reserve of gains and losses on financial assets measured at fair value through other comprehensive income	Statutory reserve	Retained earnings	Total equity
Equity as at 31 December 2020	**4,780,595**	**101,660**	**448,068**	**130,887**	**1,605,862**	**2,616,939**	**9,684,011**
Profit	–	–	–	–	–	4,187,592	4,187,592
Other comprehensive loss	–	–	–	(6,264)	–	–	(6,264)
Total comprehensive loss for the year	**–**	**–**	**–**	**(6,264)**	**–**	**4,187,592**	**4,181,328**
Dividends recognised as distributions to owners (Note 19)	–	–	–	–	–	(1,304,046)	(1,304,046)
Increase (decrease) through other changes, equity	–	–	(10,535)	–	–	10,535	–
Distribution of previous years' profits (Note 19)	–	–	–	–	1,304,047	(1,304,047)	–
Equity as at 31 December 2021	**4,780,595**	**101,660**	**437,533**	**124,623**	**2,909,909**	**4,206,973**	**12,561,293**
Loss	–	–	–	–	–	(397,723)	(397,723)
Other comprehensive profit/(loss)	–	–	7,779	(474,968)	–	–	(467,189)
Total comprehensive profit/(loss) for the year	**–**	**–**	**7,779**	**(474,968)**	**–**	**(397,723)**	**(864,912)**
Increase (decrease) through other changes, equity	–	–	(14,553)	–	–	14,553	–
Equity as at 31 December 2022	**4,780,595**	**101,660**	**430,759**	**(350,345)**	**2,909,909**	**3,823,803**	**11,696,381**

Signed on behalf of the Management Board on 27 April 2023 by:

S. P. Chernenko (Chairperson of the Management Board)

K. O. Shkoliarenko (Chief Financial Officer)

O. O. Poleshchuk (Chief Accountant)

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

(In Ukrainian Hryvnias and in thousands)

1. Principal activities

JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” (hereinafter, the “Bank”) was established on 20 November 1991. The Bank commenced its operations in April 1992. The Bank provides a full range of banking services, including attracting deposits and granting loans, investing in securities, servicing payments in Ukraine and transferring funds abroad, exchanging currencies, issuing and processing transactions with payment cards.

The Bank is a member of the Individual Deposit Guarantee Fund effective from 2 September 1999 (Registration Certificate No. 102 dated 6 November 2012), which operates in accordance with the Law of Ukraine No. 2740-III “On Individual Deposit Guarantee Fund”. Starting from 13 April 2022, during the martial law period in Ukraine and three months after the termination or abolition of martial law in Ukraine, the Individual Deposit Guarantee Fund reimburses each depositor of the bank in full amount (2020: UAH 200 thousand per person).

As at 31 December 2022, the Bank’s shareholders were SCM FINANCE (92.3% in the share capital) and SCM HOLDINGS LIMITED (Cyprus) (7.7% in the share capital) (31 December 2021: SCM FINANCE (92.3% in the share capital) and SCM HOLDINGS LIMITED (Cyprus) (7.7% in the share capital)). The ultimate controlling party of the Bank is Mr. R. L. Akhmetov, a citizen of Ukraine.

The Bank’s registered address is at: 4 Andriivska Str, Kyiv, Ukraine. As at 31 December 2022, the Bank had five regional centers and 213 outlets in Ukraine (31 December 2021: six regional centers and 242 outlets in Ukraine).

In August 2022, companies of the SCM group completed an agreement on the sale of PrJSC UASK ASKA and PrJSC ASKO-DONBASS SEVERNYI INSURANCE COMPANY, which were part of a banking group where the bank was the controller, but not the owner. As a result of the agreement, PJSC “IC” VUSO“ became the new owner of the companies. This decision was confirmed by the National Bank of Ukraine regarding the exclusion of members of the Banking Group, in which FUIB is the responsible party. According to Resolution of the NBU No. 254, Section I, Clause 10, the responsible person has the right not to take into account the reporting of banking group members when drawing up the consolidated reporting of the banking group/sub-consolidated reporting of a subgroup of the banking group, if the aggregate assets of such banking group members are less than the smallest of: 3% of the banking group's assets or UAH 300 million. The bank will use this simplification for the current and following reporting periods.

2. Operating environment of the Bank

Many hopes and expectations were placed on the year 2022. The COVID-19 pandemic was on the decline. Albeit slowly, the economy demonstrated signs of post-crisis recovery. Unfortunately, the positive dynamics of recovery was rudely disrupted by Russia’s military aggression, which brought a full-scale war, thousands of deaths, torture, the destruction of everything that contained beauty and life, the death of relatives, the destruction of houses, the burning of entire territories. Millions of children and families were forced to leave the country, hundreds of thousands of able-bodied citizens were engaged at the front, tens of thousands of entities stopped operating.

Despite the colossal loss of human lives and the country’s production potential, the enemy’s attacks on the state system and government institutions, the country’s economy continues to function as an integrated system, and the Government retains full power and all opportunities for making and implementing political decisions. Decisive actions of the state authorities of Ukraine at the initial stage of the war made it possible to consolidate strong international support for Ukraine, both in obtaining weapons and in financial aid. In 2022, thanks to the heroic deeds of the Armed Forces of Ukraine, Ukraine succeeded to liberate 40% of the territories captured after February 24 and 28% of all the territories occupied by Russia.

Since the beginning of the war, Ukraine has received USD 26 billion of international aid. However, the problematic issues are the predictability and the rate at which international aid is received. At the end of the year, an agreement was reached with the IMF at the staff level regarding the conduct of a 4-month monitoring mission, a successful completion of which will provide Ukraine with an access to the IMF’s extended EFF credit support program effective from March 2023. Coordinating the parameters of further cooperation with the IMF and systemizing the cooperation with international partners are the keys to Ukraine’s fiscal stability.

Ukraine’s economy is gradually recovering from the war shock. The decline in production has been stopped, new technological processes are being established, and the real sector is being converted. However, at the end of the year, the pace of economic recovery began to slow down again in connection with the barbaric attacks of the Russian army on the civil infrastructure of Ukraine, which shortened the business day and increased the cost price. According to the latest IMF estimates, real GDP in 2022 has decreased by 35%.

The stability of the banking system has been preserved. The war generally did not have a negative impact on the state of the banking system. On the contrary, the banking liquidity was actively replenished thanks to emission financing of the state budget deficit and the inflow of international aid. At the end of the year, the liquidity of the banking system already exceeded the statutory values six times, and the core and regulatory capital of banks – two times. Despite the increase in the share of non-performing loans (up to 38% compared to 30% at the beginning of the year), the banking system maintained solid profitability: UAH 25 billion of net profits (data for the 12 months of 2022). Thus, the banking system has preserved and strengthened the capacity of financial stability and potential for credit expansion, which is an important factor for further successful recovery of the economy.

(In Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank (continued)

Currency stability has been preserved. Timely implemented measures in the area of currency regulation (fixing the exchange rate, applying currency restrictions on the withdrawal and movements in capital, etc.) made it possible to maintain stability in the foreign exchange market. The state of the balance of payments was stabilized during the war. Despite the significant factors of currency outflow, Ukraine managed to compensate for those losses with the arrival of international aid, as well as administrative restrictions on the withdrawal of capital from the country. The main factors for intensifying the outflow of foreign currency are the economy's increased need in imports, delays in the return of export foreign currency earnings, spending of foreign currency by the Ukrainian refugees abroad, the purchase of foreign currency as a means of savings, Russia's blocking of transport opportunities for export trade. The main factors of additional inflows of foreign currency are international loans and grant aid, payroll and transfers of people. For the ten months of 2022, the total deficit of the balance of payments was USD 5.9 billion, of which USD 5.1 billion was financed from the currency reserves of the NBU, and USD 0.8 billion — at the cost of the IMF loans. However, since the second half of the year, the total balance of payments remained positive. As at 1 December 2022, the international reserves exceeded the pre-war level and amounted to USD 28 billion.

The budget system works smoothly, but with a significant fiscal deficit. Thanks to the large-scale international financial support, as well as the participation of the issue financing of the Central Bank, it was possible to ensure the stability of financing all critically important state expenditures, primarily in the part of defense and social sphere financing.

In 2022, the state budget revenues nominally decreased by 10%, the expenditures doubled, and the deficit reached UAH 1.6 trillion, or about 35% of GDP, including grant funding. Ensuring the rhythmic functioning of the budget process in such conditions required titanic efforts on behalf of the Ministry of Finance. However, the public debt already exceeded the point of 80% of GDP and, during the next year, it will probably reach the level of 100% of GDP, which signals high risks for the debt sustainability of public finance.

The war between Ukraine and the Russian Federation 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, recovery strategy after the invasion is stopped, and cooperation with the international funds.

As a result of the hostilities, as at 31 December 2022, the Bank suspended or closed 48 outlets, including one regional center. The Bank also wrote-off property, plant, and equipment, including its own buildings, with the carrying value of UAH 69,978 thousand and lost cash in the amount of UAH 88,909 thousand.

In preparing these financial statements, the Bank used known and estimated results of the above-mentioned events on the financial condition and performance of the Bank in the reporting period. Management monitors the developments in the current situation and takes measures, if necessary, to minimize any negative consequences as far as possible. Further negative developments in political, macroeconomic, and/or foreign trade conditions may continue to have a negative impact on the financial condition and performance of the Bank in a manner that cannot be currently determined.

3. Basis of preparation

General information

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" regarding the financial statements preparation (the "Law on Accounting and Financial Reporting"). The financial statements have been prepared on the historical cost basis, except for financial instruments and investment property carried at fair value, as well as buildings and works of art recognized at revalued amounts.

Military actions within the territory of Ukraine and currently unpredictable effects of the ongoing war impacts on the significant assumptions underlying management forecasts and cause a material uncertainty for the Bank's activity in the future.

These annual financial statements have been prepared on a going concern basis. The Bank's management has assessed its ability to continue as a going concern in light of the current and potential consequences of Russia's military aggression against Ukraine. According to the Bank's management, the main factor of pressure on the financial results is played by allowances for expected credit losses. Based on the results of the iterative assessment of the actual and prospective state of the payment discipline of customers in accordance with the movements in business during the wartime and the physical state of preservation of the collateral received, the Bank has estimated the extent of a potential deterioration of the financial positions of customers, a possible level of defaults, and, as a result, a probable change in the amount of allowances for expected credit losses. The Bank's management estimates that the expenses incurred to create the allowances will not lead to a violation of the NBU's regulatory requirements regarding capital adequacy, even in the event of a worse scenario than determined by the analysis results. The assessment has been based on the map of military operations as at the end of December 2022.

(In Ukrainian Hryvnias and in thousands)

3. Basis of preparation (continued)

General information (continued)

The Bank consistently monitors its liquidity level. As at the reporting date, current and potential liabilities exceeded current assets by UAH 5 bln, though current assets exceed current liabilities by UAH 1 bln. When assessing the liquidity and the ability to fulfill its obligations, the Bank takes into account the stability of customer account balances by using models. The excess of current and potential financial liabilities over current financial assets does not lead to an increase in liquidity risk, since the Bank has a high specific weight of stable balances on customer accounts. The analysis of forecast balances of cash funds, funds on correspondent accounts, investments in domestic government loan bonds (hereinafter, “DGLBs”), and the NBU’s deposit certificates indicates to a sufficient reserve of liquidity. At the same time, during the martial law period, balances on customer accounts have increased, which indicates to the absence of a threat of massive early withdrawal of cash and is a sign of customer confidence. The Bank’s approaches, principles, indicators, and instruments regarding the liquidity risk management are disclosed in Note 25.

For the reporting year of 2023, based on the current assessment of changes in the operating environment, the Bank forecasts that the balance sheet structure will be preserved close to the one available at the reporting date, with a increase in the balance sheet currency as a result of an increase in corporate portfolio and investment securities, a sufficient level of liquidity, and an increase in operating income. The forecast of the Bank’s performance indicators has been based on the assumption regarding stabilization of GDP (without growth), the same level of inflation, further weakening of the exchange rate of UAH against key currencies, an inflow of liquidity, almost the same level of net interest margin, increase in corporate portfolio, and decrease of retail one.

The Bank’s management undertakes consistent measures to ensure the uninterrupted operation of outlets, provided there is no threat to the life and health of employees and customers. If possible, the Bank constantly supports ATMs with cash.

The Bank has a long-standing history of profitable activities and successful experience of recovering from the losses incurred in the crises of 2008-2009 and 2014-2015, successful experience of adapting the activities and crisis management during COVID-19 pandemic.

Based on the results of the analysis of forecast performance indicators, the amount of potential credit losses, additional expenses caused by the military actions, estimated indicators of liquidity and capital adequacy, the Bank’s management believes that there are adequate reasons for preparing these financial statements on a going concern basis.

4. Summary of significant accounting policies

Adoption of new or revised Standards and Interpretations

Summarized below are key changes in accounting policies related to adoption of Standards and Interpretations that were first applied in 2022. Substance and effect of each individual Standard and amendments thereto are described below.

Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The amendments provide additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendments, a subsidiary that uses the exemption can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent’s consolidated financial statements. A similar election is available to an associate or joint venture.

Earlier, before the relevant amendments to IFRS 1, a subsidiary had to reflect the cumulative translation differences as part of other comprehensive income, with subsequent transfer to profit or loss on a disposal of a foreign unit or consider them to be equal to zero at the date of transition to IFRS and adjust them on the disposal of the foreign unit.

That is, the above-mentioned amendments to IFRS 1 exempt a subsidiary from additional calculations and adjustments, allowing to use the exchange rate differences that are already reflected in the IFRS consolidated financial statements of the parent.

The amendments provided had no material effect on the Bank’s financial statements.

Amendments to IFRS 9 “Financial Instruments” clarify what fees should be used in applying the ‘10 per cent’ test stipulated by Para. B3.3.6 IFRS 9 to assess whether to derecognize a financial liability.

The terms and conditions of a financial liability are considered materially different if the discounted present value of the cash flows on the new terms and conditions, including any fees paid, less any fees received and discounted at the original effective interest rate, differs by at least 10% of the discounted present value of residual cash flows under the original financial liability. When determining the amount of commission payments after deducting the commissions received, the borrower takes into account only the amounts of commission remuneration paid or received between this borrower and the relevant lender, including commissions paid or received by the borrower or the lender on behalf of each other.

The amendments provided had no material effect on the Bank’s financial statements.

4. Summary of significant accounting policies (continued)

Adoption of new or revised Standards and Interpretations (continued)

Amendments to IAS 41 "Agriculture". Effective from 1 January 2022, the amendments remove the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value under Para. 22. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 "Fair Value Measurement".

This enables business entities to use more accurate fair value of biological assets and determine whether to use:

- Pre-tax or post-tax discount rates;
- Pre-tax or post-tax cash flows.

The entities possessing biological assets should review and bring in line with the amendments their:

- Methodologies, models for calculating the fair value of biological assets;
- Accounting policies for measuring the fair value of biological assets.

The amendments provided had no material effect on the Bank's financial statements.

Amendments to IFRS 3 "Business Combinations" update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework, in particular, the reference has been changed to the Conceptual Framework in the norm which defines the conditions for recognition of identified acquired assets and accepted liabilities upon acquisition. Such assets and liabilities should meet the definition of assets and liabilities in the Conceptual Framework.

In addition, an exception is envisaged for certain liabilities and contingent liabilities, when the acquirer should apply IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" to determine whether, at the acquisition date, the liability has arisen as a result of past events.

It has been determined that the acquirer is not allowed to recognize a contingent asset at the acquisition date.

For a levy that would be within the scope of IFRIC 21 "Levies", the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The amendments provided had no material effect on the Bank's financial statements.

Amendments to IAS 16 "Property, Plant, and Equipment" relate to accounting and disclosure of information in terms of income from property, plant, and equipment before their intended use. In particular, they prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by managementit. Such sales proceeds and related expenses should be recognized in profit or loss.

Entities should apply those amendments retrospectively, but only to those items of property, plant, and equipment that have been delivered to the location and brought to the condition necessary for operation in a manner determined by management on or after the date of commencement of the earliest period presented in the financial statements in which those amendments are first applied. Entities should recognize the cumulative effect of the initial application of those amendments as an adjustment to the opening balance of retained earnings (or other component of equity) at the beginning of that earliest period presented.

The amendments provided had no material effect on the Bank's financial statements.

Amendments to IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets" clarify what costs should be included in the assessment of the costs of fulfilling obligations under the contract in order to define it as onerous. On 1 January 2022, it was established that the costs of execution of the contract include costs that are directly related to this contract and include:

(a) Additional costs for the performance of the contract, for example, direct costs for labor and materials; and
(b) Distributed other costs directly related to the performance of contracts, for example, the distributed part of the costs on depreciation of a property, plant, and equipment item, which is used for the performance of this contract, among other things.

Onerous contracts are inherently loss-making. Valuation reserves should be created under such contracts. Amendments to IAS 37, by clarifying a list of costs, may lead to an increase in the amount of valuation reserves.

The amendments provided had no material effect on the Bank's financial statements.

The principal accounting policies applied in the preparation of these financial statements are described below. These principles have been consistently applied to all years presented in the financial statements, unless otherwise indicated.

4. Summary of significant accounting policies (continued)

Classification – financial assets

Under IFRS 9, all debt financial assets that do not meet SPPI (solely payment of principal and interest) criterion are classified at initial recognition as financial assets at fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not belong to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVTPL.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date when the Bank obtains or transfers an asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

After assessment of the business model and SPPI test, a financial asset is classified at initial recognition as measured at amortized cost, at fair value through other comprehensive income (FVTOCI), or at fair value through profit or loss.

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

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

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

- The debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for the following items that are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest income using the effective interest rate method;
- Expected credit losses (ECLs); and
- Gains and losses on translation differences.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from comprehensive income to profit or loss.

When it comes to the initial recognition of investments in equity instrument not intended for trading, the Bank may, at its own discretion, take a decision, without the right of further cancellation, to recognize subsequent changes in their fair value in other comprehensive income. Such an option is chosen for each investment separately.

Gains and losses on such equity instruments are never reclassified to net income, and no impairment loss is recognized in profit or loss. Dividends are recognized in profit or loss, unless it is evident that they represent a return of the initial cost of the investment, in which case the dividends are recognized in other comprehensive income. When an investment is disposed, cumulative gains and losses recognized in other comprehensive income are reclassified to retained earnings.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at the initial recognition, the Bank may, at its own discretion, classify, without the right to further reclassification, a financial asset that meets the criteria for measurement at amortized cost or at fair value through other comprehensive as measured at fair value through profit or loss, if this would eliminate or significantly reduce the accounting inconsistency that would otherwise have occurred.

Business model assessment

The Bank assesses the objective of a business model within which an asset is held at the level of financial instrument portfolio, insofar as this best reflects the way the business is managed and information provided to management personnel. At that, the following information is considered:

- Policies and objectives set for this portfolio of financial assets, as well as those set for the policies in practice, in particular, whether the strategy of management personnel is aimed at obtaining interest income provided for by an agreement, support for a certain structure of interest rates, ensuring matching of maturities of financial assets with maturities of financial liabilities used to finance those assets or obtaining cash flows through the sale of assets.

4. Summary of significant accounting policies (continued)

Business model assessment (continued)

- How the portfolio effectiveness is evaluated and how this information is communicated to the Bank's management personnel.
- Risks impacting the effectiveness of a business model (and financial assets held within this business model) and how those risks are managed.
- How the managers who manage the business are remunerated (e.g., whether this remuneration depends on the fair value of the assets they manage or on the contractual cash flows they receive from the assets).
- Frequency, volume, and terms of sales in past periods, the reasons for such sales, as well as expectations about the future level of sales. However, the information on sale levels is considered not separately, but as part of a single comprehensive analysis of how the Bank's objective of managing financial assets is achieved and how cash flows are managed.

Financial assets held for trading which are managed and the effectiveness is evaluated based on fair value are measured at fair value through profit or loss, since they are held neither for the purpose of obtaining contractual cash flows nor for the purpose of both obtaining contractual cash flows and selling financial assets.

Assessment of whether contractual cash flows are solely the payment of principal and interest

For the purposes of this assessment, principal amount is defined as the fair value of a financial asset at its initial recognition. The interest is defined as compensation for time value of money, credit risk related to a principal outstanding for a certain period of time, and other basis risks and expenses related to lending (e.g., liquidity risk and administrative expenses), as well as profit margins.

In assessing whether contractual cash flows are solely the payment of principal and interest on the outstanding part of the principal ("SPPI" criterion), the Bank analyzes the contractual terms of a financial instrument.

Reclassification

The classification of financial assets after initial recognition does not change, except in the period following the one in which the Bank changes its business model for managing financial assets. The Bank should reclassify its financial assets only if it has changed the business model used to manage those financial assets. It is expected that such changes occur rarely. Such changes are determined by the Bank's senior management as a consequence of external or internal changes and are significant for the Bank's operations and obvious to external parties.

The classification of financial liabilities after initial recognition is not subject to change.

Derecognition

Financial assets

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

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

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

Any accumulated profit/loss recognized in other comprehensive income from equity investment securities classified, at the Bank's discretion, as measured at fair value through other comprehensive income is not subject to reclassification into net income or loss upon de-recognition of such securities. Any participation interest in the transferred financial asset that meets the criteria for de-recognition that has arisen or was retained by the Bank is recognized as a separate asset or liability.

4. Summary of significant accounting policies (continued)

Derecognition (continued)

Write offs

Loans and debt securities are subject to write-offs (partially or in full) when overdue exceed 36 months and there are no reasonable expectations of their recoverability. In such cases, the Bank generally determines that a borrower has no assets or sources of income which can generate cash flows in the amount sufficient to repay debts that are subject to write-offs.

However, the Bank may continue to pursue activities aimed at collecting debts on written off financial assets in accordance with the policy of collecting amounts due.

Modification of financial assets and financial liabilities

Financial assets

As part of credit risk management, the Bank reviews the terms of loans to customers facing financial difficulties (the "policy of reviewing the terms of loan agreements"). If the Bank plans to change the terms of a financial asset in such a manner that this change would result in the forgiveness of a part of the existing contractual cash flows, the part of an asset is written off until the substantiality of the modification of terms is assessed. The Bank performs a qualitative assessment of the substantiality of this modification following the Bank's policy for reviewing the terms of loan agreements.

If cash flows differ significantly ("substantial modification of terms"), the validity of rights to the contractual cash flows related to the original financial asset is deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value. Changes in cash flows related to the existing financial assets or financial liabilities are not considered to be a modification of terms if they result from current terms of the agreement, e.g., changes in interest rates by the Bank due to changes in the discount rate of the National Bank of Ukraine if the relevant loan agreement allows for the Bank to change interest rates.

The Bank makes a quantitative and qualitative assessment of whether the modification of terms is substantial, i.e. whether cash flows from the original financial asset and cash flows from the modified asset or a financial asset that changed it differ substantially. The Bank makes a quantitative and qualitative assessment of the sustainability of the terms modification by analyzing qualitative factors, qualitative factors, and the cumulative effect of qualitative and quantitative factors. If cash flows differ substantially, the validity of rights to the contractual cash flows related to the original financial asset is deemed to have expired.

If cash flows from a modified asset measured at amortized cost do not differ substantially, then such a modification of terms does not result in a de-recognition of a financial asset. In this case, the Bank recalculates the gross carrying amount of a financial asset and recognizes the amount of adjustment of the gross carrying amount as profit or loss from the modification in profit or loss. The gross carrying amount of a financial asset is recalculated as the present value of revised or modified cash flows discounted using the original effective interest rate on this financial asset. Expenses and fees incurred adjust the carrying amount of the modified financial asset and are amortized over the life of the modified financial asset.

Financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the new liability is treated with recognition of the resulting difference in the respective carrying amounts. Financial guarantees represent irrevocable commitment to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment. At each reporting date, financial guarantees are measured based on the allowance for ECLs. Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments, including loan commitments and letters of credit and applies the requirements to measurement of ECLs in respect of such commitments.

4. Summary of significant accounting policies (continued)

Impairment – Financial assets, loan commitments, and financial guarantees

The impairment model applies to the following financial instruments that are not measured at fair value through profit or loss:

- Financial assets that are debt instruments;
- Receivables under lease contracts;
- Loan commitments and liabilities under financial guarantees.

Impairment losses on investments in equity instruments are not recognized.

Allowances for expected credit losses are recognized in the amount equal to either expected credit losses for 12 months or expected credit losses over the life of an instrument for the financial instruments in respect of which a significant increase in credit risk was identified. Expected credit losses over the life of an instrument are the expected credit losses arising from all possible default events over the whole contractual life of a financial instrument, while expected credit losses for 12 months represent a part of the expected credit losses arising from the default events possible within 12 months after the reporting date.

To estimate the allowance for expected credit losses on financial receivables, the Bank uses a practical expedient in accordance with IFRS 9.

The Bank recognizes allowances for expected credit losses in the amount equal to expected credit losses for the life of an instrument, except for the instruments in respect of which the amount of recognized allowance will be equal to the expected credit loss for 12 months:

- Debt securities, if it has been determined that they have a low credit risk at the reporting date. The Bank believes that a debt security has a low credit risk if its credit rating corresponds to the world generally accepted definition of the "investment quality" rating;
- Other financial instruments (other than receivables under lease contracts), in respect of which there has been no significant increase in credit risk from their initial recognition;
- Allowances for losses on receivables under lease contracts will always be measured at the amount equal to the expected credit losses over the lifetime of an instrument.

The notion of expected credit losses measurement, definitions of default, and other interpretations of the key approaches to impairment are provided in the Note 25 "Risk Management".

Fair value measurement

The Bank measures financial instruments carried at fair value through profit or loss, as well as at fair value through other comprehensive income and such non-financial assets as investment property, buildings, and works of art at fair value at each reporting date.

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 fair vale measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses the fair value measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Statement of comprehensive income

The amounts withdrawn from equity and adjusted at fair value of financial assets as a result of reclassification and withdrawn from the category of measured at fair value through other comprehensive income, before tax, represent the realized revaluation of securities measured at fair value through other comprehensive income and recognized in the statement of comprehensive income.

(In Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by the National Bank of Ukraine with maturities up to one business day, cash on hand and in transit, and balances with the National Bank of Ukraine.

Bank metals

Bank metals are accounted for as other assets, and related profit or loss is recognized in other income.

Gold and other bank metals are recorded at the NBU's bid prices, which approximate fair values and are quoted at a discount to the London Bullion Market rates. Changes in the NBU's bid prices are recorded as foreign exchange differences on dealing in bank metals within other income.

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in property, plant and equipment, other financial assets, or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of those assets and are subsequently measured and accounted for in accordance with the accounting policies for those categories of assets. As part of other assets, such assets are stated at cost, less impairment.

Sale and repurchase agreements

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions.

The securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within the amounts due to others banks or other borrowed funds.

The securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market or contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from those instruments are included in the statement of profit or loss as net gains/(losses) from derivative financial instruments.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to others banks, issued deposit certificates, customer accounts, subordinated debt, and other borrowed funds. Upon initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses related to such liabilities are recognized in the statement of profit or loss when the borrowings are derecognized, and expense is recognized through the amortization process.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The right to set off should not be contingent on a future event and should be legally enforceable in all of the following circumstances:

- The normal course of business;

4. Summary of significant accounting policies (continued)

Offsetting (continued)

- The event of default; and
- The event of insolvency or bankruptcy of the entity or any of the counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Income taxes

Income taxes have been provided for in the financial statements in accordance with the Ukrainian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in the statement of profit or loss, 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. Taxes, other than on income, are recorded within operating expense.

Deferred income tax is provided 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 balances 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.

Property, plant, and equipment

Property, plant and equipment, other than buildings and works of arts, are stated at cost, less accumulated depreciation and any impairment, where required.

Upon initial recognition at cost, the Bank's buildings and works of arts are carried at revalued amounts, which is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

When an item of buildings is revalued, any accumulated depreciation is restated pro rata to the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals to its revalued amount.

The revaluation surplus is allocated directly to the retained earnings if the revaluation amount is realized, i.e. if an asset is realized or written off in the process of use of that asset by the Bank. In the latter case, the realized revaluation represents the difference between the depreciation accrued based on the revalued carrying amount of the asset and the depreciation accrued based on its historical cost.

Construction in progress is carried at historical cost, less any allowance for impairment. Upon completion, assets are reclassified to the category of buildings or leasehold improvements at the its carrying amounts. Construction in progress is not depreciated until the asset is available for use, in which case it is transferred to another category of property, plant and equipment.

At each reporting date, the carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicated that the carrying amount may not be recoverable. If any such indication exists, management of the Bank estimated 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. The 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 or losses on disposals determined by comparing the proceeds on disposal with the carrying amounts of assets are recognized in profit or loss for the year (within other operating income or expense).

4. Summary of significant accounting policies (continued)

Property, plant, and equipment (continued)

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

Depreciation of an asset begins from the date when it is available for use. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. For the key categories of property, plant and equipment, the following annual depreciation rates are used:

Buildings	2%–5%	
Leasehold improvements	20%	Or over the term of the lease, if shorter than 5 years
Computers and other equipment	20%–33%	

Works of arts are not amortized. The assets' residual values, useful lives, and depreciation methods are revised and adjusted, as appropriate, at each financial year-end.

Intangible assets, other than goodwill

All intangible assets other than goodwill, of the Bank have definite useful lives and include capitalized computer software and licenses.

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 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 expenses when incurred. Capitalized computer software and licenses are amortized on a straight-line basis over the expected useful lives from 3 to 10 years.

Investment property

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

Investment property is initially recognized at cost and subsequently measure at fair value, which reflects market conditions at the reporting date.

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

If the investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Leases

A lease is entered into by a contract which conveys to a user (lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. A portion of an asset may be separated as a separate identified asset if it is physically distinct. If it cannot be physically distinct, then a portion of an asset is not a separately identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset.

If a contractual payment contains more than one lease component or a combination of lease and non-lease component, the contract is based on the relative values of the payment itself.

The Bank as a lessee

For short-term leases not exceeding 12 months from the inception date, as well as for the leases of underlying assets of low value, the Bank applies a practical expedient not to recognize the right-of-use assets and lease liabilities. Lease payments under such contracts are recognized as operating expense over the whole term of the contract.

In other cases, the net present value of lease payments is recognized as a financial liability. And the lease payments are divided into payments of principal and interest by using the effective interest rate method.

Correspondingly, the right-of-use asset is recognized at the net present value of lease liabilities on a contract commencement date, including other direct related costs. Preliminary payments made prior to the commencement date, as well as consideration received from a lessor are included in right-of-use assets. The right-of-use assets are amortized on a straight-line basis over the lease term or over the useful life of the asset, if this term is shorter than the lease term.

4. Summary of significant accounting policies (continued)

Leases (continued)

In the event of a change in the amount of expected lease payments, e.g., due to an indexed calculation, or based on new estimates of contractual options, the liability is revalued. The adjustment is made together with a relevant recalculation of the right-of-use.

The Bank as a lessor

A lease under which the Bank acts as a lessor and all the risks and rewards incidental to ownership of an underlying asset are transferred to a lessee is classified as a finance lease. In this case, the net present inflows of minimum lease payments are recognized as an asset in the form of receivables. Payments from the lessee are divided to repayment of the carrying amount of the asset and interest income recognized over the term of finance leases by using the effective interest rate method.

All other lease contracts under which the Bank acts as a lessor are classified as operating leases: a lease item continues to be stated in the Bank's statement of financial position, and lease payments are generally recognized as income on a straight-line basis over the lease term.

Retirement and other employee benefit obligations

The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

Accounts payable attributable to the principal activities and other accounts payable

Accounts payable attributable to the principal activities are recognized when a counterparty has performed its obligations under the contract and are carried at amortized cost.

Share capital

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are stated as adjustments to share premium.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position, but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Interest income and expense

Effective interest rate

Interest income and interest expense are recognized in profit or loss by using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to:

- Gross carrying amount of a financial asset; or
- Amortized cost of a financial liability.

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

The effective interest rate calculation includes transaction costs, as well as all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include additional expenses directly related to the acquisition or issue of a financial asset or a financial liability.

Amortized cost and gross carrying amounts

The amortized cost of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured at initial recognition, minus any repayments of the principal, plus or minus the cumulative amortization using the effective interest rate method of any difference between the amount at initial recognition and the maturity amount and minus, in the case of a financial asset, an allowance for expected credit losses.

(In Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Interest income and expense (continued)

The gross carrying amount of financial assets measured at amortized cost is the amortized cost of financial assets before recognizing the expected credit losses.

Calculation of interest income and expense

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of an asset (when an asset is not credit-impaired) or the amortized cost of a liability.

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

For the financial assets that were credit-impaired at the initial recognition, interest income is calculated by applying the effective interest rate to the net amortized cost of a financial asset adjusted for credit risk. The calculation of interest income on such assets is not carried out based on the gross carrying amount, even if the credit risk related to them will subsequently decrease.

Commission income

Fees, commissions, and other income and expense item, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commitment fees on loans or borrowings which are probable of being drawn down are deferred (together with related direct costs) and recorded as an adjustment to the effective interest rate on the loan or borrowed funds. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for the third party, such as the acquisition of loans, shares, or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation

Ukrainian Hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rates of the National bank of Ukraine at the reporting date. Gains or losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the relevant transactions.

Amendments to the financial statements after issue

The Bank's shareholders are entitled to amend the financial statements after they are issued.

New accounting pronouncements

The Standards and Interpretations that have been issued, but are not yet effective, up to the date of issuance of the Bank's financial statements are described below. The Bank intends to adopt those Standards, if applicable, when they become effective.

Effective from 1 January 2023, the following new IFRS and amendments to IFRS come into force.

IFRS 17 "Insurance Contracts" supersedes the provisional Standard – IFRS 4 "Insurance Contracts", requires consistent accounting for all insurance contracts based on the current valuation model, and provides useful information on the profitability of insurance contracts.

The main innovations of IFRS 17 include:

- Classification of insurance and innovation contracts;
- Obligatory separation of non-insurable components;
- Determining the profitability of insurance contracts at the time of initial recognition (for example, whether insurance contracts are onerous);
- Requirements to aggregating contracts: by risk level, profitability, date of issue, and other requirements of the Standard;

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

- Expansion of requirements to disclosure of information in the financial statements in the structure of the balance sheet and the statement of financial results;
- Actuarial calculations via different liabilities valuation methods.

IFRS 17 is applied retrospectively.

It should be noted that the initial version of IFRS 17 was amended in June 2020 to provide the following:

- Deferral of the date of initial application of IFRS 17 until January 2023, as well as the transfer to this date of the temporary exemption provided for by IFRS 4 regarding the application of IFRS 9;
- Additional exclusion from the scope of IFRS 17 of credit card contracts that provide for insurance coverage, as well as exclusion (as an option) of loan agreements that provide for the transfer of insurance risk;
- Permission to apply IFRS 17 regarding interim financial statements in accordance with the choice of accounting policy at the level of a business entity;
- Requirement to a business entity which, on the date of initial recognition, recognizes losses under issued onerous insurance contracts to also recognize profit from retained reinsurance contracts;
- Simplified presentation of information on insurance contracts in the statement of financial position (assets and liabilities under insurance contract portfolios, not groups);
- Simplification regarding the transition to application of IFRS 17 in case of a business combination and regarding the date of application of the risk reduction option and the approach of applying the fair value model.

Those provisions will not have any impact on the Bank.

Amendments to IAS 1 "Presentation of Financial Statements" refer to the replacements of requirements to business entities to disclose their significant accounting policies by the requirement to disclose material accounting policies.

Information is material if its omission, misrepresentation, or obfuscation could, in accordance with reasonable expectations, affect the decisions taken by the main users of general purpose financial statements based on such statements which provide financial information about a specific reporting entity.

In addition, guidance has been added on how entities should apply the concept of materiality when making accounting policy disclosure decisions.

The Bank analyzes the future impact on the financial statements.

Amendments to IAS 8 "Accounting Polices, Changes in Accounting Estimates, and Errors" clarify the difference between changes in accounting policies and accounting estimates and determine accounting estimates as monetary amounts in the financial statements in respect of which the estimate is uncertain.

The IFRS Council clarifies that changes in accounting estimates due to new information or developments are not corrections of errors. In addition, the results of changes in inputs or valuation techniques are treated as changes in accounting estimates unless they result from adjustments to prior period errors. Changes in accounting estimates may affect only current period profits/losses or current and future periods.

The amendments become effective for annual periods beginning on or after 1 January 2023 regarding changes in accounting policies and changes in accounting estimates that will occur at this or that date. Early application is allowed.

The Bank analyzes the future impact on the financial statements.

Amendments to IAS 12 "Income Taxes" clarify how entities should consider deferred taxes on such transactions as leases and disposal liabilities.

In certain circumstances, IAS 12 provides entities with an exemption from the recognition of deferred taxes if they relate to the initial recognition of assets and liabilities. However, there was uncertainty as to whether the exemption should apply to transactions such as leases and disposal liabilities, the transactions on which entities recognize both assets and liabilities.

The amendments clarify that the exemption from initial recognition does not apply to the transactions in which, upon initial recognition, equal amounts of deductible and taxable differences arise. The entities need to recognize deferred taxes on those transactions.

A deferred tax liability should be recognized for all taxable temporary differences, except when such differences arise from:

a) Initial recognition of goodwill, or
b) Initial recognition of an asset or liability in the transaction which:
    i) Is not a business combination;

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

ii) Does not have any impact on accounting or taxable profit (tax loss) during the implementation;

iii) During the implementation does not lead to the emergence of temporary differences that are subject to taxation and deduction in equal amounts.

A deferred tax asset should be recognized in respect of all deductible temporary differences when it is probable that taxable profit will be generated against which the deductible temporary difference can be utilized, except when the deferred tax asset arises from the initial recognition of the asset or liability in the transactions which:

a) Is not a business combination;

b) Does not have any impact on accounting or taxable profit (tax loss) during the implementation;

c) During the implementation does not lead to the emergence of temporary differences that are subject to taxation and deduction in equal amounts.

An entity should apply the above amendments to the transactions that occur at the beginning of or after the earliest comparative period.

At the beginning of the earliest comparative period, an entity should:

a) Recognize a deferred tax asset to the extent that it is probable that taxable profit will be generated against which a deductible temporary difference can be utilized and a deferred tax liability in respect of all taxable and deductible temporary differences related to:

   i) Right-of-use assets and lease liabilities, and

   ii) Costs of decommissioning, restoration, and similar liabilities and corresponding amounts recognized as part of the value of the related asset; and

b) Recognize the cumulative effect of the first application of the amendments as an adjustment to the opening balance of retained earnings (or other component of equity) at that date.

The Bank analyzes the future impact on the financial statements.

Amendments to IFRS 17 “Insurance Contracts” – Entities should first apply IFRS 17 and IFRS 9 from the date of initial adoption of IFRS 17. When applying the requirements to classification of financial assets provided by the amendments, entities should provide comparative information as if the requirements of IFRS 9 to classification and measurement were applied in the comparative period. Impairment requirements (Para. 5.5 of IFRS 9) may not apply.

The approach is applied for the reporting periods from the date of transition to IFRS 17 to the date of initial application of IFRS 17.

An individual application is provided for each instrument, as well as additional requirements to the disclosure of qualitative information regarding the scope of application of classification requirements and to what extent the requirements of IFRS 9 on impairment are applied (Para. 5.5 of IFRS 9).

The amendments determine a range of entities that may apply the approach provided for by the amendments. Those, in particular, are:

- Entities that apply IFRS 17 and IFRS 9 simultaneously for the first time and choose to restate comparative information (regarding financial assets derecognized in the comparative period (financial assets to which the requirements of IFRS 9 do not apply));
- Entities that apply IFRS 17 and IFRS 9 simultaneously for the first time and do not list the comparative information (regarding any financial assets in the comparative period);
- Entities that applied IFRS 9 before IFRS 17 (for financial assets derecognized in the comparative period and which will be reclassified in accordance with Para. C29 of IFRS 17).

Those provisions will not have any impact on the Bank.

Effective from 1 January 2024, the following amendments to IFRS will come into effect:

The effective date of amendments to IAS 1 “Presentation of Financial Statements” – Classification of liabilities as current or non-current has been finally transferred to 1 January 2024 from the initially planned – 1 January 2022 and amended – 1 January 2023.

It has been clarified that a liability is classified as non-current if an entity has the right to defer settlement of the liability for at least 12 months – this right should exist at the end of the reporting period.

The right to defer settlement of a liability for at least 12 months after the end of the reporting period should be real and should exist at the end of the reporting period.

(In Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

In the event the right to defer the settlement of the obligation depends on the entity fulfilling certain conditions, then such a right exists at the end of the reporting period only if the entity has fulfilled those conditions at the end of the reporting period. It is necessary to fulfill those conditions on the date of the end of the reporting period, even if the verification of their fulfillment is performed by a lender later.

The classification of a liability is not affected by the probability that the entity will exercise its right to defer settlement of the liability for at least 12 months after the end of the reporting period. If a liability meets the criteria of Para. 69 of IAS 1, it is classified as non-current, even if management intends or expects to settle this liability within 12 months after the end of the reporting period, or even if the entity settles this liability in the period between the end of the reporting period and the date of authorization of the financial statements for issue. However, in any case, it may be necessary to disclose information about the timing of settlement of the liability to enable users of the financial statements to understand the effect of those circumstances on the financial position of the entity.

The Bank analyzes the future impact on the financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" – Non-current liabilities with additional terms and conditions provide that if an entity's right to defer the settlement of the liability is subject to additional terms and conditions (covenants) within 12 months after the reporting date, the entity should disclose in the notes the additional information that will enable users of the financial statements to understand a risk that the obligations will have to be paid within 12 months from the reporting date. In particular, it will be necessary to disclose:

- Information about the substance of covenants when the entity will be obliged to perform those terms and conditions and the carrying value of relevant liabilities;
- Facts and circumstances that indicate that the entity may encounter difficulties in performing the terms and conditions, including those that may be estimated at the end of the reporting period

Amendments to IAS 1 "Presentation of Financial Statements" – Classification of liabilities as current or non-current (2020) become effective from 1 January 2024. The early application is allowed. In the event an entity applies the amendments of 2020 earlier than 1 January 2024, but after publication of the amendments "Non-Current Liabilities with Additional Terms and Conditions" (October 2022), it should simultaneously recognize all changes. The fact of applying the amendments of 2020 earlier than 1 January 2024 should be disclosed.

The amendments "Non-Current Liabilities with Additional Terms and Conditions" (October 2022) should be applied by entities effective from 1 January 2024 retrospectively. The early application is allowed. In the event of early application, all above amendments are applied simultaneously. The fact of early application should be disclosed.

The Bank analyzes the future impact on the financial statements.

Changes in the financial statements for the year ended 31 December 2021

In preparing these financial statements, the Bank changed the presentation of certain accounts in the statements of financial position due to their economic nature:

	31 December 2021, previously presented	**Impact of changes**	**31 December 2021, newly presented**
Liabilities			
Customer accounts	80,917,134	(45,353)	80,871,781
Other financial liabilities	2,463,602	45,353	2,508,955
Total liabilities	**83,380,736**	**–**	**83,380,736**

5. Significant 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 evaluated 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 of the Bank 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 significant adjustments to the carrying amounts of assets and liabilities within the next financial year include:

Impairment of loans and advances to customers and accounts receivable

The Bank regularly reviews its loan portfolios and accounts receivable to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a repayment of the borrower's debts before the decrease can be identified with an individual loan in that loan portfolio and accounts receivable. When calculating future cash flows, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment for groups of loans and accounts receivable. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans (Stage 3) to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sales of assets is influenced by the value of the assets and the expected term of sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral and 50% increase in the expected term of exposure of those assets would result in an increase in impairment losses on individually impaired loans by UAH 414,479 thousand (2021: UAH 104,742 thousand).

A 10% increase in the value of collateral for impaired loans without change in the exposure term would result in a decrease of the impairment loss on the individually impaired loans by UAH 178,237 thousand (2021: UAH 52,769 thousand).

Allowance for expected credit losses on corporate loans which is assessed on a collective basis (Stage 1 and a part of loans to customers that fail to meet the materiality criterion at Stage 2) may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (Loss Given Default/LGD). A simultaneous 10% increase in PD and LGD would result in an increase in expected credit losses on impairment by UAH 109,798 thousand (2021: UAH 49,098 thousand). A simultaneous 10% decrease in PD and LGD would result in a decrease in expected credit losses on impairment by UAH 99,341 thousand (2021: UAH 44,422 thousand).

Expected credit losses on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and the Recovery Rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in the increase in the expected impairment losses by UAH 252,225 thousand (2021: UAH 166,058 thousand). A simultaneous 10% decrease in PD and 10% increase in RR would result in the decrease in the expected impairment losses by UAH 253,870 thousand (2021: UAH 162,651 thousand).

Fair value of own buildings used by the Bank, works of arts, and investment property

As stated in Note 4, the Bank's buildings, works of art, and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. The basis for their work is the sales comparison approach, which is further confirmed by the income approach. When performing the revaluation, certain judgments and estimates are applied by the appraisers in determination of the comparable buildings to be used in sales comparison approach, useful lives of the assets revalued, and capitalization rates to be applied for the income approach. In 2022, the Bank performed the revaluation of the fair value of own buildings by engaging independent appraisers, the result of which led the Bank to conclude that it was need to bring carrying value of property, plant, and equipment with their fair values.

If the prices per square meter were 5% higher or lower, the fair value of own buildings used by the Bank would be by UAH 38,407 thousand higher or lower, respectively (2021: UAH 39,888 thousand), and the fair value of investment property would be by UAH 2,958 thousand higher or lower, respectively (2021: UAH 3,105 thousand).

Determining the terms under lease contracts

The Bank considers all available facts and circumstances that give rise to an economic incentive to exercise an option to extend the lease or not to exercise the option to terminated the lease. The Bank determines the total lease term considering an option to extend the lease term and an option to terminate longer lease terms. Where practicable, the Bank seeks to include extension options in new leases to ensure operating flexibility. The Bank assesses, at the lease commencement date, whether it is reasonably certain to exercise the options if there are a significant evet or significant changes in the circumstances within its control. As a result, the lease term of the majority of leases was determined to be in the range from 3 to 5 years. If the lease term were determined to be one year longer, right-of-use assets and lease liabilities would be higher by UAH 95,598 thousand (2021: UAH 131,593 thousand).

(In Ukrainian Hryvnias and in thousands)

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

Fair value measurements

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not possible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 26.

For shares and other securities issued by non-bank financial companies, the Bank uses information from open sources to determine the fair value. If information is not available, then assumptions by analogy or financial models are used. However, in rare cases, cost may act as the best estimate of fair value if access to the market is limited and there are reasonable barriers to sale that make it impossible to obtain reliable information, or if it is not possible the free sale in the open market due to limiting factors, or there are many different estimates of fair value and cost reflects the best estimate among them.

In December 2022, the Bank has converted all 41,048 class C common stocks Visa to 164,192 class A common shares and sold them in the open market. The Bank recognized the class A common shares as financial assets designed through profit or loss at the date of receipt cash from selling and, accordingly recognized the gain from initial recognition of financial assets measured at fair value through profit or loss in its statement of profit or loss for the year ended 31 December 2022 in total amount of UAH 1,242,933 thousand and related tax expenses in amount of UAH 223,102 thousand.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model tests. The Bank determines a business model at the level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgments reflecting all relevant evidences, including how the performance of assets is evaluated and their performance measured, the risks that affect the performance of assets and how those are managed and how managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in the business model and, correspondingly, a prospective change to the classification of those assets.

Initial recognition of related party transactions

In the course of normal business activities, the Bank transacts with its related parties. IFRS 9 requires accounting for financial instruments at initial recognition at fair value. In view of absence of an active market for such transactions, to determine whether the transactions were performed at market or non-market prices, judgments are used. Such judgments are based on pricing for similar financial instruments and transactions therewith, including analysis of effective interest rates and parameters of the arrangements.

Tax legislation

Due to the presence in the Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties, and interest. Tax records remain open to review by the tax authorities for three years.

Cash and cash equivalents

Refinancing loans obtained from the National Bank of Ukraine are used by the Bank in its operating activities. Thus, in order to comply with the proceeds reported in the statement of cash flows, changes on refinancing loans are presented in the section cash flow from operating activities.

Significant increase in credit risk

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.

(In Ukrainian Hryvnias and in thousands)

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

Determining and estimating scenarios of expected cash flows and their probabilities on loans to customers measured on an individual basis.

In estimating the degree of expected 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 ECL. 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.

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.

Determining the number, a relevant weight of forward-looking scenarios, and determining the forward-looking information relating to each of the scenarios

In estimating the expected credit losses, the Bank uses reasonable and supportable forward looking information that is based on assumptions regarding future movements of varied economic factors and the way those factors are going to affect each other.

For corporate loan portfolio, the Bank incorporates macroeconomic forward-looking information in its impairment framework via analysis of different scenarios in the estimation of credit risk measures. The scenarios are defined as baseline (weight of scenario – 55%), upside (weight of scenario – 15%) and downside (weight of scenario – 30%). The Bank used own forecast for GDP and Unemployment rate which is based on official NBU forecasts.

As of 31 December 2022, the Bank did not apply any forward-looking adjustments for retail loan portfolio due to the uncertainties in future economic situation associated by the war in Ukraine. Bank calculated PDs using 2022 data only to project current portfolio performance to the next year, because it is not possible to build a reliable regression model which could predict the future portfolio performance in relation with the macroeconomic data.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that, should credit risk characteristics change, there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs, but the amount of ECL changes because the credit risk of the portfolios differs.

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.

(In Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2022	2021
Cash on hand and in transit	2,474,608	2,657,646
Current account with the National Bank of Ukraine	3,627,745	1,874,141
Current accounts and overnight deposits with other banks of Ukraine	218,197	19,045
Current accounts and overnight deposits with other banks of other countries	15,112,369	7,878,203
Current accounts and overnight deposits with other foreign banks – expected credit losses	(8,547)	(2,822)
Deposit certificates issued by the National Bank of Ukraine	25,031,497	8,900,000
Total cash and cash equivalents	**46,455,869**	**21,326,213**

In accordance with the NBU requirements, the Bank's mandatory reserve balance is computed as a percentage of certain liabilities of the Bank for the prior provisioning month. As at 31 December 2022 and 2021, the National Bank of Ukraine did not require that the banks hold the mandatory reserves on a separate account. The control over the creation of mandatory reserves is carried out on a monthly basis based on the average data for the entire period of holding.

As at 31 December 2022, deposit certificates issued by the National Bank of Ukraine with the nominal value of UAH 25,031,497 thousand (31 December 2021: UAH 8,900,000 thousand) with the maturity of up to 1 business day were classified by the Bank as cash and cash equivalents.

The following is the analysis of changes in the gross carrying value and the allowance for impairment of cash and cash equivalents during the year ended 31 December 2022:

Cash and cash equivalents	**Stage 1**	**Total**
Gross carrying amounts as at 1 January 2022	**21,329,035**	**21,329,035**
New assets	25,315,791	**25,315,791**
Assets repaid	(10,190,106)	**(10,190,106)**
Change in carrying amounts during the period	5,432,174	**5,432,174**
Use of allowance	(1,777)	**(1,777)**
Translation differences	4,579,299	**4,579,299**
As at 31 December 2022	**46,464,416**	**46,464,416**

Cash and cash equivalents	**Stage 1**	**Total**
Expected credit losses as at 1 January 2022	**2,822**	**2,822**
New assets	615	**615**
Assets repaid	(759)	**(759)**
Change in expected credit risk estimation	5,685	**5,685**
Use of allowance	(1,777)	**(1,777)**
Translation differences	1,961	**1,961**
As at 31 December 2022	**8,547**	**8,547**

The following is the analysis of changes in the gross carrying value and the allowance for impairment of cash and cash equivalents during the year ended 31 December 2021:

Cash and cash equivalents	**Stage 1**	**Total**
Gross carrying amounts as at 1 January 2021	**14,535,856**	**14,535,856**
New assets	11,949,420	**11,949,420**
Assets repaid	(9,052,467)	**(9,052,467)**
Change in carrying amounts during the period	5,383,073	**5,383,073**
Translation differences	(1,486,847)	**(1,486,847)**
As at 31 December 2021	**21,329,035**	**21,329,035**

(In Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents (continued)

Cash and cash equivalents	Stage 1	Total
Expected credit losses as at 1 January 2021	**1,018**	**1,018**
New assets	398	**398**
Assets repaid	(533)	**(533)**
Change in expected credit risk estimation	2,033	**2,033**
Translation differences	(94)	**(94)**
As at 31 December 2021	**2,822**	**2,822**

The following is the analysis of current accounts and overnight deposits with other banks by credit quality as at 31 December 2022:

	Current accounts and overnight deposits with other banks in Ukraine	Current accounts and overnight deposits with other banks in other countries	Total
Stage 1			
- AA- to AA+ rated	−	6,760,851	6,760,851
- A- to A+ rated	−	8,348,472	8,348,472
- BBB- to BBB+ rated	−	3,046	3,046
- CCC- to CCC+ rated	216,677	−	216,677
- Unrated	1,520	−	1,520
Total	**218,197**	**15,112,369**	**15,330,566**
Less: Expected credit losses	−	(8,547)	(8,547)
Total current accounts and overnight deposits with other banks	**218,197**	**15,103,822**	**15,322,019**

The following is the analysis of current accounts and overnight deposits with other banks by credit quality as at 31 December 2021:

	Current accounts and overnight deposits with other banks in Ukraine	Current accounts and overnight deposits with other banks in other countries	Total
Stage 1			
- AA- to AA+ rated	−	3,727,773	3,727,773
- A- to A+ rated	−	2,794,595	2,794,595
- BBB- to BBB+ rated	−	1,081,394	1,081,394
- B- to B+ rated	5,326	30	5,356
- Unrated	13,719	274,411	288,130
Total	**19,045**	**7,878,203**	**7,897,248**
Less: Expected credit losses	−	(2,822)	(2,822)
Total current accounts and overnight deposits with other banks	**19,045**	**7,875,381**	**7,894,426**

The credit ratings were based on the ratings assigned by the international rating agency of Fitch.

(In Ukrainian Hryvnias and in thousands)

7. Loans and advances to banks

	2022	2021
Accrued interest income on current accounts and overnight deposits with other banks	–	6
Term deposits with other banks, including:		
- OECD countries	2,944,352	2,659,385
- Domestic	14,943	18,161
- Other countries	534,641	126,898
Total term deposits with other banks	**3,493,936**	**2,804,444**
Less: Expected credit losses	*(3,020)*	*(1,948)*
Total loans and advances to banks	**3,490,916**	**2,802,502**

The analysis of changes in the gross carrying value and expected credit losses on loans and advances to banks during the year ended 31 December 2022 was as follows:

Loans and advances to banks	Stage 1	Total
Gross carrying amounts as at 1 January 2022	**2,804,450**	**2,804,450**
New assets	1,002,916	**1,002,916**
Assets repaid	(668,721)	**(668,721)**
Change in carrying amounts during the period	(626,343)	**(626,343)**
Translation differences	981,634	**981,634**
As at 31 December 2022	**3,493,936**	**3,493,936**

Loans and advances to banks	Stage 1	Total
Expected credit losses as at 1 January 2022	**1,948**	**1,948**
New assets	621	**621**
Assets repaid	(477)	**(477)**
Change in expected credit risk estimation	(1,483)	**(1,483)**
Translation differences	2,411	**2,411**
As at 31 December 2022	**3,020**	**3,020**

The analysis of changes in the gross carrying value and expected credit losses on loans and advances to banks during the year ended 31 December 2021 was as follows:

Loans and advances to banks	Stage 1	Total
Gross carrying amounts as at 1 January 2021	**1,487,273**	**1,487,273**
New assets	2,004,501	**2,004,501**
Assets repaid	(598,187)	**(598,187)**
Change in carrying amounts during the period	7,806	**7,806**
Translation differences	(96,943)	**(96,943)**
As at 31 December 2021	**2,804,450**	**2,804,450**

Loans and advances to banks	Stage 1	Total
Expected credit losses as at 1 January 2021	**899**	**899**
New assets	1,405	1,405
Assets repaid	(174)	(174)
Change in expected credit risk estimation	(8)	(8)
Translation differences	(174)	(174)
As at 31 December 2021	**1,948**	**1,948**

As at 31 December 2022, the term deposits placed with other banks in the OECD and other non-OECD countries for the total amount of UAH 3,478,993 thousand (31 December 2021: UAH 2,786,283 thousand) were represented by security deposits against import letters of credit and guarantees issued by the Bank in favor of its customers, including guarantee deposits against settlements in international payment systems in the amount of UAH 511,960 thousand.

(In Ukrainian Hryvnias and in thousands)

7. Loans and advances to banks (continued)

The analysis by credit quality of term deposits with other banks as at 31 December 2022 was as follows:

	Term deposits with other banks	Total
Stage 1		
- AA- to AA+ rated	1,675,140	**1,675,140**
- A- to A+ rated	1,781,173	**1,781,173**
- BBB- to BBB+ rated	,276	**276**
- CCC- to CCC+ rated	4,731	**4,731**
- Unrated	32,616	**32,616**
Total	**3,493,936**	**3,493,936**
Less: Expected credit losses	(3,020)	**(3,020)**
Total loans and advances to banks	**3,490,916**	**3,490,916**

The credit ratings were based on the ratings assigned by the international rating agency of Fitch. In the event a financial institution has no rating assigned by Fitch, but has a rating assigned by S&P or Moody's, the relevant rating should be brought in line with the rating of Fitch.

The analysis by credit quality of term deposits with other banks as at 31 December 2021 was as follows:

	Interest income accrued on current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Stage 1			
- AA- to AA+ rated	–	1,085,783	**1,085,783**
- A- to A+ rated	6	1,638,655	**1,638,661**
- BBB- to BBB+ rated	–	61,845	**61,845**
- Unrated	–	18,161	**18,161**
Total	**6**	**2,804,444**	**2,804,450**
Less: Expected credit losses	–	(1,948)	**(1,948)**
Total loans and advances to banks	**6**	**2,802,496**	**2,802,502**

8. Investments in securities

Investments in securities measured at fair value through other comprehensive income

	2022	2021
Government debt securities	12,579,714	17,025,685
Deposit certificates issued by the National Bank of Ukraine	–	6,109,390
Total debt securities	**12,579,714**	**23,135,075**
Including interest income accrued	***344,151***	***557,501***
Shares	7,057	7,057
Total investments in securities measured at fair value through other comprehensive income	**12,586,771**	**23,142,132**

(In Ukrainian Hryvnias and in thousands)

8. Investments in securities (continued)

The analysis of changes in the gross carrying value and the allowance for expected credit losses on investments in securities measured at fair value through other comprehensive income during the year ended 31 December 2022 was as follows:

Investments in securities	Stage 1	Stage 2	Total
Gross carrying amounts as at 1 January 2022	**23,252,195**	**–**	**23,252,195**
New assets	–	1,744,008	**1,744,008**
Assets repaid	(6,109,391)	(6,077,414)	**(12,186,805)**
Transfer to Stage 2	(17,135,747)	17,135,747	**–**
Change in carrying amounts during the period	–	(644,316)	**(644,316)**
Translation differences	–	632,083	**632,083**
As at 31 December 2022	**7,057**	**12,790,108**	**12,797,165**

Investments in securities	Stage 1	Stage 2	Total
Expected credit losses as at 1 January 2021	**110,063**	**–**	**110,063**
Assets repaid	–	(24,261)	(24,261)
Transfer to Stage 2	(110,063)	110,063	–
Change in expected credit risk estimation	–	121,067	121,067
Translation differences	–	3,525	3,525
As at 31 December 2022	**–**	**210,394**	**210,394**

The analysis of changes in the gross carrying value and the allowance for expected credit losses on investments in securities measured at fair value through other comprehensive income during the year ended 31 December 2022 was as follows:

Investments in securities	Stage 1	Total
Gross carrying amounts as at 1 January 2021	**18,549,206**	**18,549,206**
New assets	18,054,893	**18,054,893**
Assets repaid	(12,970,702)	**(12,970,702)**
Change in carrying amounts during the period	(188,786)	**(188,786)**
Translation differences	(192,416)	**(192,416)**
As at 31 December 2021	**23,252,195**	**23,252,195**

Investments in securities	Stage 1	Total
Expected credit losses as at 1 January 2021	**94,502**	**94,502**
New assets	88,421	88,421
Assets repaid	(49,575)	(49,575)
Change in expected credit risk estimation	(22,189)	(22,189)
Translation differences	(1,096)	(1,096)
As at 31 December 2021	**110,063**	**110,063**

The analysis by credit quality of debt securities measured at fair value through other comprehensive income based on the data published by Standard & Poor's as at 31 December 2022 was as follows:

	Government debt securities	Total
Stage 2		
- CCC+ rated	12,579,714	**12,579,714**
Total debt securities	**12,579,714**	**12,579,714**

(In Ukrainian Hryvnias and in thousands)

8. Investments in securities (continued)

The analysis by credit quality of debt securities measured at fair value through other comprehensive income based on the data published by Standard & Poor's as at 31 December 2021 was as follows:

	Government debt securities	Deposit certificates issued by the NBU	Total
Stage 1			
- B rated	17,025,685	6,109,390	**23,135,075**
Total debt securities	**17,025,685**	**6,109,390**	**23,135,075**

The credit ratings for the issuers of government debt securities and deposit certificates issued by the National Bank of Ukraine were based on the sovereign rating of Ukraine.

The primary factor that the Bank considers in determining whether a debt security is impaired is an issuer's credit risk.

As at 31 December 2022, deposit certificates with the nominal value of UAH 25,031,497 thousand (31 December 2021: UAH 8,900,000 thousand), with the maturity of up to one business day, were classified by the Bank as cash and cash equivalents (Note 6).

As at 31 December 2022, government debt securities included domestic government loan bonds with maturities ranging from 2 February 2023 to 30 October 2024 and effective interest rates ranging from 4% to 15% per annum (31 December 2021: maturities ranging from 5 January 2022 to 30 October 2024 and effective interest rates ranging from 4% to 13% per annum). As at 31 December 2021, government debt securities also included deposit certificates issued by the National Bank of Ukraine within the portfolio of investments in securities measured at fair value through other comprehensive income ranging from 6 January 2022 to 14 January 2022 and effective interest rate of 9% per annum.

9. Loans and advances to customers

	2022	2021
Corporate loans	39,275,488	34,961,592
Finance leases	1,640,147	1,460,325
Less: Expected credit losses	(7,036,663)	(2,898,279)
Total corporate loans, less expected credit losses	**33,878,972**	**33,523,638**
Loans to individuals		
Consumer loans	5,792,769	9,004,030
Credit cards and overdrafts	12,401,450	12,883,536
Mortgage loans	103,406	99,367
Car loans	188	176
Less: Expected credit losses	(8,406,548)	(2,423,954)
Total loans to individuals, less expected credit losses	**9,891,265**	**19,563,155**
Total loans and advances to customers	**43,770,237**	**53,086,793**

The analysis of the gross carrying amounts by stages of impairment as at 31 December 2022 was as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Corporate loans	26,718,331	5,421,511	7,062,457	73,189	39,275,488
Finance leases	752,503	647,400	240,244	–	1,640,147
Consumer loans	2,851,629	848,983	2,092,157	–	5,792,769
Credit cards and overdrafts	6,769,369	943,140	4,688,941	–	12,401,450
Mortgage loans	12,280	22,166	68,015	945	103,406
Car loans	–	–	188	–	188
Less: Expected credit losses	(1,374,753)	(1,729,454)	(12,319,314)	(19,690)	(15,443,211)
Total loans and advances to customers	**35,729,359**	**6,153,746**	**1,832,688**	**54,444**	**43,770,237**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

The analysis of the gross carrying amounts by stages of impairment as at 31 December 2021 was as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Corporate loans	29,550,074	1,484,937	3,804,145	122,436	34,961,592
Finance leases	1,430,029	29,519	777	–	1,460,325
Consumer loans	8,315,154	199,430	489,446	–	9,004,030
Credit cards and overdrafts	11,813,858	234,118	835,560	–	12,883,536
Mortgage loans	50,031	2,787	45,444	1,105	99,367
Car loans	–	–	176	–	176
Less: Expected credit losses	(1,238,437)	(309,759)	(3,766,261)	(7,776)	(5,322,233)
Total loans and advances to customers	**49,920,709**	**1,641,032**	**1,409,287**	**115,765**	**53,086,793**

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost

The tables below disclose the changes in expected credit losses on loan contracts with the Bank's customers. New financial assets originated include ECL charges on the loans issued during the current or prior periods. The assets repaid represent the winding up of allowances as a result of full repayment or sales of loans. Changes in the expected credit risk estimation during the period include increases or decreases in the expected credit losses under the contracts that existed at the beginning and the end of the reporting or prior periods, including changes due to partial repayments or use of funds within credit limits.

The analysis of changes in the gross carrying amounts and relevant expected credit losses on corporate loans during the year ended 31 December 2022 was as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amounts as at 1 January 2022	**29,550,074**	**1,484,937**	**3,804,145**	**122,436**	**34,961,592**
New assets	13,225,085	–	–	–	**13,225,085**
Assets repaid or sold	(9,241,416)	(1,312,508)	(742,436)	–	**(11,296,360)**
Transfers to Stage 1	73,172	(73,172)	–	–	**–**
Transfers to Stage 2	(3,849,728)	4,681,589	(831,861)	–	**–**
Transfers to Stage 3	(2,575,101)	(482,393)	3,057,494	–	**–**
Change in carrying amounts during the period	(2,273,855)	195,347	812,789	(59,786)	**(1,325,505)**
Changes in contractual cash flows due to modifications not resulting in de-recognition	76,330	11,452	(3,833)	–	**83,949**
Use of allowance	–	–	(113,470)	–	**(113,470)**
Translation differences	1,733,770	916,259	1,079,629	10,539	**3,740,197**
As at 31 December 2022	**26,718,331**	**5,421,511**	**7,062,457**	**73,189**	**39,275,488**

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses as at 1 January 2022	**263,589**	**77,553**	**2,540,781**	**6,733**	**2,888,656**
New assets	216,746	–	–	–	216,746
Assets repaid or sold	(75,361)	(19,111)	(393,027)	–	(487,499)
Transfers to Stage 1	3,562	(3,562)	–	–	–
Transfers to Stage 2	(38,898)	66,138	(27,240)	–	–
Transfers to Stage 3	(26,906)	(27,018)	53,924	–	–
Change in expected credit risk estimation	39,774	534,054	2,522,106	11,475	3,107,409
Recovery of allowances for loans written off in prior periods	–	–	358	–	358
Changes in contractual cash flows due to modifications not resulting in de-recognition and other changes within the existing contractual terms and conditions	639	530	(2,452)	–	(1,283)
Use of allowance	–	–	(113,470)	–	(113,470)
Adjustment of interest income	14	(42)	346,449	11	346,432
Translation differences	27,786	44,597	835,163	526	908,072
As at 31 December 2022	**410,945**	**673,139**	**5,762,592**	**18,745**	**6,865,421**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

The analysis of changes in the gross carrying amounts and relevant expected credit losses on finance leases during the year ended 31 December 2022 was as follows:

Finance leases	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2022	**1,430,029**	**29,519**	**777**	**1,460,325**
New assets	346,975	–	–	**346,975**
Assets repaid or sold	(17,732)	(104,840)	(14,177)	**(136,749)**
Transfers to Stage 2	(685,775)	685,775	–	**–**
Transfers to Stage 3	(212,704)	(29,519)	242,223	**–**
Change in carrying amounts during the period	(108,290)	66,465	11,421	**(30,404)**
As at 31 December 2022	**752,503**	**647,400**	**240,244**	**1,640,147**

Finance leases	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2022	**8,140**	**1,443**	**40**	**9,623**
New assets	2,937	–	–	2,937
Assets repaid or sold	(59)	(280)	(602)	(941)
Transfers to Stage 2	(2,307)	2,307	–	–
Transfers to Stage 3	(1,687)	(1,443)	3,130	–
Change in expected credit risk estimation	(1,044)	103,095	54,670	156,721
Adjustment of interest income	–	–	2,902	2,902
As at 31 December 2022	**5,980**	**105,122**	**60,140**	**171,242**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on consumer loans to individuals during the year ended 31 December 2022 was as follows:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2022	**8,315,154**	**199,430**	**489,446**	**9,004,030**
New assets	1,489,621	–	–	**1,489,621**
Assets repaid or sold	(3,549,093)	(239,697)	(207,750)	**(3,996,540)**
Transfers to Stage 1	8,459	(8,459)	–	**–**
Transfers to Stage 2	(646,407)	646,407	–	**–**
Transfers to Stage 3	(1,846,034)	(158,311)	2,004,345	**–**
Change in carrying amounts during the period	(920,005)	409,613	506,241	**(4,151)**
Use of allowance	(66)	–	(700,125)	**(700,191)**
As at 31 December 2022	**2,851,629**	**848,983**	**2,092,157**	**5,792,769**

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2022	**327,374**	**97,859**	**434,322**	**859,555**
New assets	116,991	–	–	116,991
Assets repaid or sold	(119,708)	(17,751)	(40,891)	(178,350)
Transfers to Stage 1	2,277	(2,277)	–	–
Transfers to Stage 2	(34,847)	34,847	–	–
Transfers to Stage 3	(98,547)	(88,247)	186,794	–
Change in expected credit risk estimation	31,570	446,707	1,901,630	2,379,907
Recovery of allowances for loans written off in prior periods	–	–	47,815	47,815
Use of allowance	(66)	–	(700,125)	(700,191)
Adjustment of interest income	–	–	154,680	154,680
As at 31 December 2022	**225,044**	**471,138**	**1,984,225**	**2,680,407**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

The analysis of changes in the gross carrying amounts and relevant expected credit losses on credit cards and overdrafts to individuals during the year ended 31 December 2022 was as follows:

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2022	**11,813,858**	**234,118**	**835,560**	**12,883,536**
New assets	243,874	–	–	**243,874**
Assets repaid or sold	(13,566)	(887)	(398,783)	**(413,236)**
Transfers to Stage 1	18,116	(18,116)	–	**–**
Transfers to Stage 2	(811,306)	811,306	–	**–**
Transfers to Stage 3	(3,214,053)	(206,536)	3,420,589	**–**
Change in carrying amounts during the period	(1,267,522)	123,246	2,010,481	**866,205**
Use of allowance	(38)	(39)	(1,179,892)	**(1,179,969)**
Translation differences	6	48	986	**1,040**
As at 31 December 2022	**6,769,369**	**943,140**	**4,688,941**	**12,401,450**

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2022	**639,044**	**132,765**	**752,527**	**1,524,336**
New assets	31,765	–	–	31,765
Assets repaid or sold	(18,674)	(1,538)	(9,317)	(29,529)
Transfers to Stage 1	6,874	(6,873)	(1)	–
Transfers to Stage 2	(43,968)	43,968	–	–
Transfers to Stage 3	(192,647)	(121,909)	314,556	–
Change in expected credit risk estimation	309,623	429,183	4,152,145	4,890,951
Recovery of allowances for loans written off in prior periods	–	–	55,720	55,720
Use of allowance	(38)	(39)	(1,179,892)	(1,179,969)
Adjustment of interest income	–	–	371,993	371,993
Translation differences	75	75	968	1,118
As at 31 December 2022	**732,054**	**475,632**	**4,458,699**	**5,666,385**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on mortgage loans to individuals during the year ended 31 December 2022 was as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amounts as at 1 January 2022	**50,031**	**2,787**	**45,444**	**1,105**	**99,367**
New assets	1,722	–	–	718	**2,440**
Assets repaid or sold	(1,243)	(136)	(329)	–	**(1,708)**
Transfers to Stage 2	(24,729)	24,729	–	–	**–**
Transfers to Stage 3	(12,466)	(2,777)	15,243	–	**–**
Change in carrying amounts during the period	(1,331)	(2,768)	2,236	(486)	**(2,349)**
Use of allowance	–	(51)	(1,722)	(566)	**(2,339)**
Translation differences	296	382	7,143	174	**7,995**
As at 31 December 2022	**12,280**	**22,166**	**68,015**	**945**	**103,406**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses as at 1 January 2022	**290**	**139**	**38,415**	**1,043**	**39,887**
New assets	68	–	–	707	775
Assets repaid or sold	(7)	(2)	(249)	–	(258)
Transfers to Stage 2	(141)	141	–	–	–
Transfers to Stage 3	(76)	(138)	214	–	–
Change in expected credit risk estimation	593	4,331	5,402	(503)	9,823
Recovery of allowances for loans written off in prior periods	–	–	2,649	–	2,649
Use of allowance	–	(51)	(1,722)	(566)	(2,339)
Adjustment of interest income	–	–	3,435	97	3,532
Translation differences	3	3	5,326	167	5,499
As at 31 December 2022	**730**	**4,423**	**53,470**	**945**	**59,568**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on car loans to individuals during the year ended 31 December 2022 was as follows:

Car loans	Stage 3	Total
Gross carrying amounts as at 1 January 2022	**176**	**176**
Change in carrying amounts during the period	(1)	**(1)**
Translation differences	13	**13**
As at 31 December 2022	**188**	**188**

Car loans	Stage 3	Total
Expected credit losses as at 1 January 2022	**176**	**176**
Change in expected credit risk estimation	(1,330)	(1,330)
Recovery of allowances for loans written off in prior periods	1,323	1,323
Adjustment of interest income	6	6
Translation differences	13	13
As at 31 December 2022	**188**	**188**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on corporate loans during the year ended 31 December 2021 was as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amounts as at 1 January 2021	**18,423,841**	**2,162,011**	**4,640,630**	**156,117**	**25,382,599**
New assets	17,962,118	–	–	17,078	**17,979,196**
Assets repaid or sold	(6,222,003)	(409,583)	(415,113)	–	**(7,046,699)**
Transfers to Stage 1	139,925	(72,724)	(67,201)	–	**–**
Transfers to Stage 2	(116,625)	116,625	–	–	**–**
Transfers to Stage 3	(34,233)	(1,671)	35,904	–	**–**
Change in carrying amounts during the period	(382,602)	(160,951)	(96,900)	(46,413)	**(686,866)**
Changes in contractual cash flows due to modifications not resulting in de-recognition	(9,229)	(2,205)	4,022	–	**(7,412)**
Use of allowance	–	–	(188,450)	(3)	**(188,453)**
Translation differences	(211,118)	(146,565)	(108,747)	(4,343)	**(470,773)**
As at 31 December 2021	**29,550,074**	**1,484,937**	**3,804,145**	**122,436**	**34,961,592**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses as at 1 January 2021	**191,597**	**140,137**	**2,914,038**	**8,252**	**3,254,024**
New assets	154,028	–	–	854	154,882
Assets repaid or sold	(57,791)	(1,503)	(100,214)	–	(159,508)
Transfers to Stage 1	9,784	(3,371)	(6,413)	–	–
Transfers to Stage 2	(1,039)	1,039	–	–	–
Transfers to Stage 3	(329)	(52)	381	–	–
Change in expected credit risk estimation	(29,156)	(50,517)	(278,307)	(2,315)	(360,295)
Recovery of allowances for loans written off in prior periods	–	–	12,362	–	12,362
Changes in contractual cash flows due to modifications not resulting in de-recognition	(99)	(113)	885	–	673
Use of allowance	–	–	(188,450)	(3)	(188,453)
Adjustment of interest income	–	–	258,412	161	258,573
Translation differences	(3,406)	(8,067)	(71,913)	(216)	(83,602)
As at 31 December 2021	**263,589**	**77,553**	**2,540,781**	**6,733**	**2,888,656**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on finance leases during the year ended 31 December 2021 was as follows:

Finance leases	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2021	**1,086,590**	**4,221**	**–**	**1,090,811**
New assets	920,788	–	–	**920,788**
Assets repaid or sold	(240,323)	–	(585)	**(240,908)**
Transfers to Stage 2	(31,443)	31,443	–	**–**
Transfers to Stage 3	(1,401)	(585)	1,986	**–**
Change in carrying amounts during the period	(304,182)	(5,560)	(624)	**(310,366)**
As at 31 December 2021	**1,430,029**	**29,519**	**777**	**1,460,325**

Finance leases	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2021	**8,170**	**86**	**–**	**8,256**
New assets	6,125	–	–	6,125
Assets repaid or sold	(2,628)	–	(10)	(2,638)
Transfers to Stage 2	(513)	513	–	–
Transfers to Stage 3	(9)	(10)	19	–
Change in expected credit risk estimation	(3,005)	854	30	(2,121)
Translation differences	–	–	1	1
As at 31 December 2021	**8,140**	**1,443**	**40**	**9,623**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

The analysis of changes in the gross carrying amounts and relevant expected credit losses on consumer loans to individuals during the year ended 31 December 2021 was as follows:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2021	**6,289,787**	**429,346**	**699,584**	**7,418,717**
New assets	7,339,321	–	–	**7,339,321**
Assets repaid or sold	(4,044,403)	(282,746)	(116,878)	**(4,444,027)**
Transfers to Stage 1	9,859	(9,859)	–	**–**
Transfers to Stage 2	(145,782)	145,782	–	**–**
Transfers to Stage 3	(220,596)	(129,004)	349,600	**–**
Change in carrying amounts during the period	(913,032)	45,911	148,940	**(718,181)**
Use of allowance	–	–	(591,800)	**(591,800)**
As at 31 December 2021	**8,315,154**	**199,430**	**489,446**	**9,004,030**

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2021	**224,544**	**110,707**	**623,172**	**958,423**
New assets	279,152	–	–	279,152
Assets repaid or sold	(127,008)	(47,768)	(61,741)	(236,517)
Transfers to Stage 1	2,424	(2,424)	–	–
Transfers to Stage 2	(11,754)	11,754	–	–
Transfers to Stage 3	(21,396)	(53,677)	75,073	–
Change in expected credit risk estimation	(18,588)	79,267	230,150	290,829
Recovery of allowances for loans written off in prior periods	–	–	68,246	68,246
Use of allowance	–	–	(591,800)	(591,800)
Adjustment of interest income	–	–	91,222	91,222
As at 31 December 2021	**327,374**	**97,859**	**434,322**	**859,555**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on credit cards and overdrafts to individuals during the year ended 31 December 2021 was as follows:

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2021	**8,081,322**	**200,402**	**755,123**	**9,036,847**
New assets	2,148,201	–	–	**2,148,201**
Assets repaid or sold	(493,741)	(10,500)	(99,944)	**(604,185)**
Transfers to Stage 1	35,643	(35,643)	–	**–**
Transfers to Stage 2	(167,801)	167,801	–	**–**
Transfers to Stage 3	(451,648)	(150,893)	602,541	**–**
Change in carrying amounts during the period	2,661,931	62,955	292,713	**3,017,599**
Use of allowance	(48)	(4)	(714,810)	**(714,862)**
Translation differences	(1)	–	(63)	**(64)**
As at 31 December 2021	**11,813,858**	**234,118**	**835,560**	**12,883,536**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2021	**400,006**	**90,950**	**699,392**	**1,190,348**
New assets	128,541	–	–	128,541
Assets repaid or sold	(22,320)	(1,662)	(12,858)	(36,840)
Transfers to Stage 1	10,491	(10,491)	–	–
Transfers to Stage 2	(10,460)	10,460	–	–
Transfers to Stage 3	(36,459)	(75,943)	112,402	–
Change in expected credit risk estimation	169,507	119,455	385,582	674,544
Recovery of allowances for loans written off in prior periods	–	–	79,496	79,496
Use of allowance	(116)	(4)	(714,742)	(714,862)
Adjustment of interest income	–	–	203,317	203,317
Translation differences	(146)	–	(62)	(208)
As at 31 December 2021	**639,044**	**132,765**	**752,527**	**1,524,336**

The analysis of changes in the gross carrying amounts and relevant expected credit losses on mortgage loans to individuals during the year ended 31 December 2021 was as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amounts as at 1 January 2021	**47,655**	**1,294**	**51,450**	**1,007**	**101,406**
New assets	15,504	–	–	–	**15,504**
Assets repaid or sold	(3,397)	–	(1,212)	–	**(4,609)**
Transfers to Stage 1	272	(272)	–	–	**–**
Transfers to Stage 2	(2,747)	2,747	–	–	**–**
Transfers to Stage 3	(565)	–	565	–	**–**
Change in carrying amounts during the period	(6,415)	(982)	771	81	**(6,545)**
Use of allowance	–	–	(5,370)	17	**(5,353)**
Translation differences	(276)	–	(760)	–	**(1,036)**
As at 31 December 2021	**50,031**	**2,787**	**45,444**	**1,105**	**99,367**

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses as at 1 January 2021	**710**	**128**	**44,340**	**943**	**46,121**
New assets	85	–	–	–	85
Assets repaid or sold	(39)	–	(736)	–	(775)
Transfers to Stage 1	11	(11)	–	–	–
Transfers to Stage 2	(54)	54	–	–	–
Transfers to Stage 3	(10)	–	10	–	–
Change in expected credit risk estimation	(400)	(32)	(21,445)	(26)	(21,903)
Recovery of allowances for loans written off in prior periods	–	–	19,456	–	19,456
Use of allowance	–	–	(5,370)	17	(5,353)
Adjustment of interest income	–	–	2,829	109	2,938
Translation differences	(13)	–	(669)	–	(682)
As at 31 December 2021	**290**	**139**	**38,415**	**1,043**	**39,887**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Changes in the gross carrying amounts and expected credit losses on loans measured at amortized cost (continued)

The analysis of changes in the gross carrying amounts and relevant expected credit losses on car loans to individuals during the year ended 31 December 2021 was as follows:

Car loans	Stage 3	Total
Gross carrying amounts as at 1 January 2021	**1,723**	**1,723**
Assets repaid or sold	(2)	**(2)**
Change in carrying amounts during the period	5	**5**
Use of allowance	(1,465)	**(1,465)**
Translation differences	(85)	**(85)**
As at 31 December 2021	**176**	**176**

Car loans	Stage 3	Total
Expected credit losses as at 1 January 2021	**1,723**	**1,723**
Change in expected credit risk estimation	(3,750)	(3,750)
Recovery of allowances for loans written off in prior periods	3,676	3,676
Use of allowance	(1,465)	(1,465)
Adjustment of interest income	77	77
Translation differences	(85)	(85)
As at 31 December 2021	**176**	**176**

The use of allowance for the year ended 31 December 2022 amounted to UAH 1,995,969 thousand (2021: UAH 1,501,933 thousand). The recovery of debt at the cost of loan sales during the year ended 31 December 2022 amounted to UAH 2,747 thousand (2021: UAH 325,081 thousand).

The amounts due under loan contracts on the financial assets written off during the year ended 31 December 2022 and for which the Bank continued working on debt recovery amounted to UAH 1,408,296 thousand (31 December 2021: UAH 1,288,872 thousand).

The amount of undiscounted expected credit losses at the initial recognition on the initially recognized POCI loans was as follows:

	2022	2021
Mortgage loans to individuals	463	807
Total undiscounted expected credit losses at the initial recognition of POCI loans	**463**	**807**

Modified loans

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

If the modification does not result in de-recognition, based on the changes in cash flows discounted at the original effective interest rate, the Bank recognizes a modification gain or loss, to the extent that the impairment loss has not already been recorded.

The table below demonstrates Stages 2 and 3 assets modified during the period, with the related modification gains or losses:

	2022	2021
Loans and advances to customers modified during the period		
Amortized cost before modification	3,541,498	720,426
Net modification gain	9,541	1,044
Gross carrying amounts of loans and advances to customers as at the end of the reporting period under which the expected credit losses after modification changed from lifetime expected credit losses to 12-month expected credit losses	358,640	17,720

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: securities;
- For corporate lending: real estate items, inventories, and accounts receivable on primary activities, as well as property rights to deposits;
- For retail lending: property rights to movable and immovable properties and to deposits.

The Bank also obtains guarantees from parents on loans to their subsidiaries.

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

As at 31 December 2022, loans were secured by customer deposits with the Bank with the carrying amount of UAH 497,085 thousand (31 December 2021: UAH 414,720 thousand) (Note 15).

Credit quality of the loan portfolio

The loan portfolio quality is managed by using the Bank’s internal credit ratings in respect of borrowings. The Bank’s policies presuppose assigning accurate and unified credit ratings in respect of the total loan portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

While determining a corporate borrower’s rating, the Bank uses the rating calculated under the internal model.

High rating has the following characteristics: expanding operating activities of a borrower, stable financial position (sufficient equity, low dependency on external sources of funding), high efficiency of the business model. The entities with a high rating are either market leaders or have a stable market position, highly effective management, and organization structure. The risk of loan quality deterioration is minimal, credit history is excellent.

Standard rating is assigned to the borrowers with stable volumes of operating activities, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have a stable market position at the regional and national level. Those are the entities with adequate management and organization structure. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the borrowers with unstable or decreasing operating activities, low business efficiency, high dependency on external sources of funding, repayment of loans with cash inflows may be problematic and, therefore, the risk of default is high. Credit history can be characterized by the existence of significant overdue payments. The market position is not stable, the decrease or loss of the market share is possible.

Among other strategies, the Bank has adopted its own credit risk management history envisaging for granting short-term loans to the borrowers with the below standard ratings, with subsequent resolution on extension of the loans subject to positive payment discipline of the borrower.

The analysis by credit quality of corporate loans outstanding, other than factoring operations, as at 31 December 2022 was as follows:

As at 31 December 2022	Stage	High rating	Standard rating	Below standard rating	Impaired	Total
Loans and advances to customers:						
- Corporate loans	Stage 1	9,483,755	13,703,838	1,926,916	–	**25,114,509**
	Stage 2	191,494	3,456,308	1,100,570	–	**4,748,372**
	Stage 3	–	–	–	1,299,134	**1,299,134**
	POCI	–	–	–	54,444	**54,444**
- Finance leases	Stage 1	102,947	545,879	97,697	–	**746,523**
	Stage 2	82,405	456,909	2,964	–	**542,278**
	Stage 3	–	–	–	180,104	**180,104**
Total		**9,860,601**	**18,162,934**	**3,128,147**	**1,533,682**	**32,685,364**

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Credit quality of the loan portfolio (continued)

The analysis by credit quality of corporate loans outstanding, other than factoring operations, as at 31 December 2021 was as follows:

As at 31 December 2021	Stage	High rating	Standard rating	Below standard rating	Impaired	Total
Loans and advances to customers:						
- Corporate loans	Stage 1	5,873,153	14,920,640	5,048,210	−	**25,842,003**
	Stage 2	19,810	1,330,463	56,906	−	**1,407,179**
	Stage 3	−	−	−	1 263,364	**1,263,364**
	POCI	−	−	−	115,703	**115,703**
- Finance leases	Stage 1	258,409	1,071,933	91,547	−	**1,421,889**
	Stage 2	−	680	27,396	−	**28,076**
	Stage 3	−	−	−	737	**737**
Total		**6,151,372**	**17,323,716**	**5,224,059**	**1,379,804**	**30,078,951**

The analysis of retail loans by days past due as at 31 December 2022 was as follows:

As at 31 December 2022	Stage	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 365 days	Total
- Consumer loans	Stage 1	2,484,458	141,937	103	49	29	9	−	2,626,585
	Stage 2	227,054	70,274	53,261	27,255	1	−	−	377,845
	Stage 3	4,142	1,965	1,100	1,084	48,465	49,730	1,446	107,932
- Credit cards and overdrafts	Stage 1	4,727,613	1,130,490	179,052	50	66	33	11	6,037,315
	Stage 2	49,811	61,485	71,536	175,457	109,219	−	−	467,508
	Stage 3	4,742	3,563	1,856	2,915	91,132	121,048	4,986	230,242
- Mortgage loans	Stage 1	11,504	46	−	−	−	−	−	11,550
	Stage 2	16,301	407	1,034	1	−	−	−	17,743
	Stage 3	121	5	−	−	558	7,146	6,715	14,545
Total		**7,525,746**	**1,410,172**	**307,942**	**206,811**	**249,470**	**177,966**	**13,158**	**9,891,265**

The analysis of retail loans by days past due as at 31 December 2021 was as follows:

As at 31 December 2021	Stage	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 365 days	Total
- Consumer loans	Stage 1	7,782,162	205,418	159	14	21	6	−	7,987,780
	Stage 2	38,557	30,584	27,352	5,077	1	−	−	101,571
	Stage 3	826	501	365	340	25,733	24,100	3,259	55,124
- Credit cards and overdrafts	Stage 1	9,701,780	1,362,001	110,776	64	117	63	13	11,174,814
	Stage 2	16,028	15,860	13,955	39,459	16,051	−	−	101,353
	Stage 3	1,824	1,426	576	682	25,053	46,232	7,240	83,033
- Mortgage loans	Stage 1	47,341	2,400	−	−	−	−	−	49,741
	Stage 2	−	1,019	1,629	−	−	−	−	2,648
	Stage 3	445	275	212	−	−	349	5,748	7,029
	POCI	3	−	−	−	−	−	59	62
Total		**17,588,966**	**1,619,484**	**155,024**	**45,636**	**66,976**	**70,750**	**16,319**	**19,563,155**

For credit cards, the Bank determines a significant increase in credit risk in case the exposure is overdue for over 35 days and default if the exposure is overdue by more than 95 days.

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Concentration of loans to customers

As at 31 December 2022, the gross carrying value of loans in the amount of UAH 9,589,511 thousand issued to the Bank’s 20 top borrowers represented 16% of the gross loan portfolio, before allowances (31 December 2021: loans in the total of UAH 8,333,486 thousand issued to the Bank’s 20 top borrowers represented 14% of the gross loan portfolio, before allowances).

The loans and advances to customers of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, are as follows:

	2022	2021
Individuals	18,297,813	21,987,109
Trade and agency services	13,210,594	12,304,637
Food processing industry and agriculture	12,783,917	8,659,874
Engineering	3,111,835	2,634,966
Mining and energy	2,753,853	2,237,524
Construction and real estate	2,717,137	2,740,127
Transport, communication services, and infrastructure	2,693,500	2,589,358
Metallurgy	1,554,029	1,946,455
Woodworking	715,011	556,679
Chemical industry	466,239	908,016
Non-banking financial institutions	106,173	853,364
Other	803,347	990,917
Total loans and advances to customers, before allowance for expected credit losses	**59,213,448**	**58,409,026**

The Bank’s lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on several factors, including the overall financial health of the borrower and the situation in the Ukrainian economy.

The financial effect of collateral is presented by disclosing collateral values separately for:

- Those financial assets where collateral and other credit enhancements are equal to, or exceed, the carrying amount of the asset (“over-collateralized assets”);
- Those financial assets where collateral and other credit enhancements are less than the carrying amount of the asset (“under-collateralized assets”).

The effect of collateral as at 31 December 2022 was as follows:

	Over-collateralized assets		**Under-collateralized assets**	
	Carrying amounts of assets, net of allowance	**Fair value of collateral**	**Carrying amounts of assets, net of allowance**	**Fair value of collateral**
Corporate loans	15,170,619	27,965,723	17,239,448	11,635,204
Finance leases	1,256,045	2,167,457	212,860	211,068
Consumer loans	176	2,849	3,112,186	257
Credit cards and overdrafts	390	586	6,734,675	–
Mortgage loans	30,580	217,886	13,258	18,718
Total	**16,457,810**	**30,354,501**	**27,312,427**	**11,865,247**

As at 31 December 2022, the effect of collateral on loans to customers included the value of collateral in the form of commodities in circulation and goods taken into storage and amounted to UAH 944,896 thousand for the over-collateralized assets and UAH 1,886,548 thousand for the under-collateralized assets (31 December 2021: UAH 2,769,022 thousand for the over-collateralized assets and UAH 289,347 thousand for the under-collateralized assets).

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

The effect of collateral as at 31 December 2021 was as follows:

	Over-collateralized assets		Under-collateralized assets	
	Carrying amounts of assets, net of allowance	**Fair value of collateral**	**Carrying amounts of assets, net of allowance**	**Fair value of collateral**
Corporate loans	16,894,899	30,137,305	15,178,037	8,550,868
Finance leases	1,440,289	2,488,107	10,413	6,238
Consumer loans	328	3,739	8,144,147	451
Credit cards and overdrafts	650	4,405	11,358,550	–
Mortgage loans	38,326	187,818	21,154	28,437
Car loans	–	444	–	–
Total	**18,374,492**	**32,821,818**	**34,712,301**	**8,585,994**

As at 31 December 2022, the net book value of collateralized loans to customers that were credit-impaired (Stage 3 and POCI) amounted to UAH 1,887,130 thousand (31 December 2021: UAH 1,376,462 thousand), and the corresponding collateral received for the purpose of reducing potential losses under those loans amounted to UAH 5,839,002 thousand (31 December 2021: UAH 2,193,834 thousand).

The analysis of finance leases receivable was as follows:

	2022	**2021**
Up to 1 year	1,284,673	885,911
From 1 to 2 years	629,212	592,716
From 2 to 3 years	145,138	254,789
From 3 to 4 years	59,696	43,636
From 4 to 5 years	2,260	18,118
Total gross investments in finance leases	**2,120,979**	**1,795,170**
Unearned future finance income on finance leases	(480,832)	(334,845)
Net investments in finance leases	**1,640,147**	**1,460,325**
Current investments in finance leases	236,469	72,390
Non-current investments in finance leases	1,403,678	1,387,935
Net investments in finance leases	**1,640,147**	**1,460,325**

(In Ukrainian Hryvnias and in thousands)

10. Property, plant, and equipment, investment property, and intangible assets, other than goodwill

	Buildings	Leasehold improve-ments	Works of art	Computers and other equipment	Capital investments in property, plant, and equipment	Total property, plant, and equipment	Intangible assets, other than goodwill	Total
Cost or revalued amounts as at 31 December 2020	**1,152,766**	**252,114**	**17,005**	**1,509,785**	**23,039**	**2,954,709**	**840,446**	**3,795,155**
Accumulated depreciation/ amortization	(346,259)	(118,962)	–	(842,337)	–	**(1,307,558)**	(576,113)	**(1,883,671)**
Carrying amounts as at 31 December 2020	**806,507**	**133,152**	**17,005**	**667,448**	**23,039**	**1,647,151**	**264,333**	**1,911,484**
Additions	16,613	28,711	115	321,900	1,146	**368,485**	184,016	**552,501**
Disposals/write-offs	(7,257)	(41)	–	(582)	–	**(7,880)**	(555)	**(8,435)**
Transfers to another category	388	3,641	–	15,758	(19,787)	**–**	–	**–**
Transfers from investment property	4,830	–	–	–	–	**4,830**	–	**4,830**
Depreciation and amortization charges	(23,314)	(39,992)	–	(251,112)	–	**(314,418)**	(191,948)	**(506,366)**
Carrying amounts as at 31 December 2021	**797,767**	**125,471**	**17,120**	**753,412**	**4,398**	**1,698,168**	**255,846**	**1,954,014**
Cost or revalued amounts as at 31 December 2021	**1,164,527**	**283,933**	**17,120**	**1,793,059**	**4,398**	**3,263,037**	**948,150**	**4,211,187**
Accumulated depreciation/ amortization	(366,760)	(158,462)	–	(1,039,647)	–	**(1,564,869)**	(692,304)	**(2,257,173)**
Carrying amounts as at 31 December 2021	**797,767**	**125,471**	**17,120**	**753,412**	**4,398**	**1,698,168**	**255,846**	**1,954,014**
Additions	6,773	33,754	–	346,556	24,221	**411,304**	902,006	**1,113,310**
Disposals/write-offs	(24,684)	(11,287)	–	(30,758)	(175)	**(66,904)**	(5,204)	**(72,108)**
Transfers to another category	271	2,203	–	1,879	(4,353)	**–**	–	**–**
Transfers from investment property	720	–	–	–	–	**720**	–	**720**
Revaluation	10,428	–	–	–	–	**10,428**	–	**10,428**
Depreciation and amortization charges	(23,132)	(43,280)	–	(276,928)	–	**(343,340)**	(497,837)	**(841,177)**
Carrying amounts as at 31 December 2022	**768,143**	**106,861**	**17,120**	**794,161**	**24,091**	**1,710,376**	**654,811**	**2,365,187**
Cost or revalued amounts as at 31 December 2022	**1,144,869**	**300,226**	**17,120**	**1,994,329**	**24,091**	**3,480,635**	**1,698,881**	**5,179,316**
Accumulated depreciation/ amortization	(376,726)	(193,365)	–	(1,200,168)	–	**(1,770,259)**	(1,043,870)	**(2,814,129)**
Carrying amounts as at 31 December 2022	**768,143**	**106,861**	**17,120**	**794,161**	**24,091**	**1,710,376**	**654,811**	**2,365,187**

As at 31 December 2022, property, plant, and equipment and intangible assets, other than goodwill, included assets at historical or revalued amounts in the amount of UAH 742,846 thousand (31 December 2021: UAH 621,090 thousand) that were fully depreciated and amortized. The Bank continues using those assets.

(In Ukrainian Hryvnias and in thousands)

10. Property, plant, and equipment, investment property, and intangible assets, other than goodwill (continued)

As at 1 December 2022, an independent valuation of the Bank's own buildings was carried out, based on which the Bank performed revaluation in the amount of UAH 10,428 thousand. The positive result of revaluation recognized in the statement of comprehensive income amounted to UAH 9,530 thousand and in the statement of comprehensive income, profit or loss in the amount of UAH 898 thousand. When performing the valuation, certain judgments and estimates were applied by the appraiser in determination of the comparable buildings to be used in the sales comparison approach, the useful lives of the assets revalued, the capitalization rate to be applied for the income approach.

As at 31 December 2022, the carrying value of buildings and works of art would have amounted to UAH 307,999 thousand (31 December 2021: UAH 331,160 thousand), had those assets been measured using the cost model. The amount reconciled with the carrying amounts of buildings was as follows:

	2022	**2021**
Buildings at revalued amounts in the statement of financial position	768,143	797,767
Revaluation surplus for buildings presented in equity, before tax	(463,070)	(469,533)
Buildings at cost, less accumulated depreciation and impairment	**305,073**	**328,234**
Works of art at revalued amounts in the statement of financial position	17,120	17,120
Revaluation surplus for works of art presented in equity, before tax	(14,194)	(14,194)
Works of art at cost, less accumulated depreciation and impairment	**2,926**	**2,926**
Total buildings and works of art	**307,999**	**331,160**

Changes in the carrying amount of investment property were as follows:

	2022	**2021**
Fair value of investment property at the beginning of the period	**62,099**	**71,330**
Sales	(1,962)	(6,074)
Transfers to the category of owner-occupied buildings	(720)	(4,830)
Gains on revaluation at fair value	1,377	2,827
Losses on revaluation at fair value	(1,626)	(1,154)
Fair value of investment property at the end of the period	**59,168**	**62,099**

The rental income received from investment property for the year ended 31 December 2022 amounted to UAH 5,089 thousand (2021: UAH 7,760 thousand) (Note 22). Operating expense and expenses on maintenance of investment property for the year ended 31 December 2022 amounted to UAH 3,969 thousand (2021: UAH 4,038 thousand).

11. Right-of-use assets

Movements in the right-of-use assets for the year ended 31 December 2022 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2022	**344,117**
Additions	6,154
Reassessment of cash flows and lease terms and lease modifications	115,776
Disposals	(59,166)
Depreciation	(147,599)
Carrying amounts as at 31 December 2022	**259,282**

(In Ukrainian Hryvnias and in thousands)

11. Right-of-use assets (continued)

Movements in the right-of-use assets for the year ended 31 December 2021 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2021	**294,432**
Additions	15,782
Reassessment of cash flows and lease terms and lease modifications	190,152
Disposals	(282)
Depreciation	(155,967)
Carrying amounts as at 31 December 2021	**344,117**

During the years ended 31 December 2022 and 2021, there were no expenses under short-term leases in respect of which the simplification for recognition under IFRS 16 was applied. Expenses for the year ended 31 December 2022 relating to the low-value leases to which the exemption for recognition was applied amounted to UAH 4,967 thousand (2021: UAH 6,421 thousand). During the years ended 31 December 2022 and 2021, there were no expenses relating to variable lease payments not included in the estimate of lease liabilities.

12. Other financial and non-financial assets

The balances of other financial assets were as follows:

	2022	2021
Other financial assets		
Settlements on card transactions	1,434,483	699,248
Receivables on transfers and payments	887,476	608,888
Accrued income and settlements	101,757	43,011
Foreign currency purchases	12,790	183,787
Settlements on cooperation agreements	4,366	19,343
Other financial assets	79,441	96,186
Allowance for impairment	(100,616)	(24,906)
Total other financial assets	**2,419,697**	**1,625,557**

The balances of other non-financial assets were as follows:

	2022	2021
Other non-financial assets		
Prepayments for property, plant, and equipment and intangible assets, other than goodwill	181,650	64,899
Repossessed property	102,115	107,863
Prepaid expenses, including insurance of assets	44,257	64,473
Other taxes prepaid	23,079	29,408
Prepayments for services	11,384	16,322
Bank metals	303	225
Other non-financial assets	5,209	4,530
Allowance for impairment	(37,191)	(6,337)
Total other non-financial assets	**330,806**	**281,383**

Movements in the allowance for impairment of other financial assets were as follows:

	2022	2021
Allowance for impairment as at 1 January	**24,906**	**27,117**
Charges to allowance for impairment	74,614	11,292
Use of allowance	3	811
Recovery of allowance	(7,248)	(13,533)
Effect of changes in exchange rates	8,341	(781)
As at the end of the period	**100,616**	**24,906**

(In Ukrainian Hryvnias and in thousands)

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

Movements in the allowance for impairment of other non-financial assets were as follows:

	2022	2021
Allowance for impairment as at 1 January	**6,337**	**3,127**
Charges to allowance for impairment	30,823	3,221
Use of allowance	(64)	–
Recovery of allowance	95	(11)
As at the end of the period	**37,191**	**6,337**

13. Due to the Central Bank

During the year ended 31 December 2020, the Bank received from the National Bank of Ukraine three tranches of the loan in the total amount of UAH 4,200,000 thousand. In September 2021, the Bank received an additional tranche in the amount of UAH 1,500,000 thousand. In late 2022, the Bank early repaid one of the tranches in the amount of UAH 1,500,000 thousand. As at 31 December 2022, the interest rate under tranches was in the range from 25% to 26% per annum (31 December 2021: the interest rate under tranches was in the range from 9% to 10.5% per annum) which had maturities in the range from 3 March 2023 to 5 December 2025 (31 December 2021: from 6 September 2024 to 5 December 2025). As at 31 December 2022, the carrying value amounted to UAH 4,188,304 thousand (31 December 2021: UAH 5,693,029 thousand). The loan was secured by government debt securities with the fair value of UAH 4,467,729 thousand as at 31 December 2022 (31 December 2021: UAH 7,301,729 thousand) (Note 28).

14. Due to others banks

	2022	2021
Current accounts of other banks		
- Domestic	498,903	580,855
Total current accounts of other banks	**498,903**	**580,855**
Term deposits of other banks		
- Domestic	1,825,319	864,342
Total term deposits of other banks	**1,825,319**	**864,342**
Total due to others banks	**2,324,222**	**1,445,197**

As at 31 December 2022, the funds placed by 10 largest banks in the amount of UAH 2,110,885 thousand made up 91% of total amounts due to others banks (31 December 2021: UAH 1,148,780 thousand, 79% of total amounts due to others banks).

15. Customer accounts

	2022	2021
Legal entities		
- Current accounts	42,466,450	34,232,306
- Term deposits and saving accounts	9,702,967	11,357,104
Individuals		
- Current accounts	17,511,955	12,880,831
- Term deposits and saving accounts	20,618,516	22,401,540
Total customer accounts	**90,299,888**	**80,871,781**

As at 31 December 2022, the deposits of 10 top customers placed with the Bank in the amount of UAH 3,456,605 thousand made up 4% of customer accounts (31 December 2021: UAH 4,124,444 thousand made up 5%).

As at 31 December 2022, included in customer accounts were deposits in the amount of UAH 497,085 thousand and UAH 127,430 thousand (31 December 2021: UAH 414,720 thousand and UAH 255,659 thousand) which represented collateral for loans and advances to customers (Note 9) and commitments related to loans and advances, respectively. In addition, the amount of UAH 2,263,307 thousand (31 December 2021: UAH 1,329,957 thousand) was held as collateral under import letters of credit, guarantees, and promissory notes endorsements (Note 27).

(In Ukrainian Hryvnias and in thousands)

15. Customer accounts (continued)

The customer accounts by economic sectors were as follows:

	2022	2021
Individuals	38,130,471	35,282,371
Trade and agency services	16,558,420	12,407,582
Mining and energy	8,916,083	7,612,109
Transport, communication services, and infrastructure	7,796,235	6,278,995
Construction and real estate	3,327,766	4,206,947
Food processing industry and agriculture	2,826,062	1,988,762
Engineering	2,296,649	2,138,668
Non-banking financial institutions	1,512,106	2,117,059
Metallurgy	1,450,489	2,798,934
Chemical industry	796,339	452,508
Woodworking	342,433	150,172
Other	6,346,835	5,437,674
Total customer accounts	**90,299,888**	**80,871,781**

16. Lease liabilities

Movements in lease liabilities for the year ended 31 December 2022 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2022	**379,968**
Additions	6,154
Reassessment of cash flows and lease terms and lease modifications	63,299
Disposals	(59,166)
Interest expense	41,362
Lease payments made	(157,234)
Carrying amounts as at 31 December 2022	**274,383**

Movements in lease liabilities for the year ended 31 December 2021 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2021	**328,639**
Additions	15,782
Reassessment of cash flows and lease terms and lease modifications	190,152
Disposals	(308)
Interest expense	40,372
Lease payments made	(194,669)
Carrying amounts as at 31 December 2021	**379,968**

17. Other financial and non-financial liabilities

The balances of other financial liabilities were as follows:

	2022	2021
Other financial liabilities		
Accounts payable on operations with plastic cards	1,115,278	979,818
Settlements	968,606	1,257,421
Account payable for the acquisition of assets	199,847	-
Allowance for commitments, guarantees, and letters of credit (Note 27)	262,470	271,716
Total other financial liabilities	**2,546,201**	**2,508,955**

(In Ukrainian Hryvnias and in thousands)

17. Other financial and non-financial liabilities (continued)

The balances of other non-financial liabilities were as follows:

	2022	2021
Other non-financial liabilities		
Amounts payable to employees	227,853	648,505
Deferred income	138,462	107,713
Contributions to the Individual Deposit Guarantee Fund	60,711	52,823
Allowance for other losses (Note 27)	52,493	2,479
Accounts payable on services	38,832	82,172
Other taxes payable	29,777	28,653
Other non-financial liabilities	2,906	208
Total other non-financial liabilities	**551,034**	**922,553**

Decrease in the amounts payable to employees was caused by the partial unwinding of provision for unused vacations and allowance for bonuses and remuneration to employees.

18. Derivative financial assets and liabilities

The table below presents the fair values of derivative financial instruments recorded as assets or liabilities.

As at 31 December 2022, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH/attraction of USD	1,453,748	(1,528,610)	–	(74,862)
Attraction of UAH/placement of USD	352,416	(371,361)	–	(18,945)
Total forward currency contracts	**1,806,164**	**(1,899,971)**	**–**	**(93,807)**

As at 31 December 2021, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH/attraction of USD	85,982	(87,119)	481	(1,618)
Attraction of UAH/placement of USD	2,590	(6,586)	2,590	(6,586)
Total forward currency contracts	**88,572**	**(93,705)**	**3,071**	**(8,204)**
Interest-bearing forward contracts on securities				
Interest rate swap	7,743	–	7,743	–
Total interest-bearing forward contracts on securities	**7,743**	**–**	**7,743**	**–**

19. Share capital and reserves

As at 31 December 2022 and 2021, the approved and authorized share capital of the Bank comprised 14,323,880 ordinary shares with the nominal value of UAH 333.75 per share. All shares have equal voting rights. As at 31 December 2022, all shares were fully paid and registered.

On 22 March 2021, the General Shareholders' Meeting of the Bank decided to distribute retained earnings in the amount of UAH 1,304,047 thousand to the Bank's statutory reserve and distribute the amount of UAH 1,304,046 thousand for the payment of dividends. No dividends were paid during the year ended 31 December 2022.

(In Ukrainian Hryvnias and in thousands)

19. Share capital and reserves (continued)

Nature and purpose of reserves

Revaluation surplus

Revaluation surplus is used to reflect the increase in the fair value of buildings and works of art, as well as its decrease, but to the extent this reduction relates to increasing the value of the same asset previously recognized in equity.

Reserve for profit or loss on the financial assets measured at fair value through other comprehensive income

The reserve reflects changes in the fair value of investments in securities measured at fair value through other comprehensive income.

Statutory reserve of the Bank

The Bank's statutory reserve is created under the Charter and the legislation requirements of Ukraine in order to reach 25 percent of regulatory capital at the beginning of each year. The amount of deductions to the statutory reserve should be no less than 5 percent of the Bank's annual income. The statutory reserve is created to cover general banking risks, including future losses and other unforeseen losses by all items of assets and off-balance sheet liabilities.

20. Interest income and expense

	2022	2021
Interest income calculated using effective interest rate method		
Loans to customers	10,723,398	9,745,390
Securities measured at fair value through other comprehensive income and deposit certificates classified as cash and cash equivalents	3,620,090	1,846,840
Due from banks	169,290	50,858
	14,512,778	**11,643,088**
Other interest income		
Finance leases to corporate customers	382,595	181,278
Securities measured at fair value through profit or loss	8	9,731
Total interest income	**14,895,381**	**11,834,097**
Interest expense		
Term deposits and saving accounts	(2,004,903)	(1,389,511)
Current accounts	(1,621,009)	(773,965)
Due to Central Bank	(1,053,423)	(354,226)
Lease liabilities	(41,362)	(40,372)
Due to others banks	(20,206)	(45,130)
Deposit certificates issued	–	(2)
Total interest expense	**(4,740,903)**	**(2,603,206)**
Net interest income	**10,154,478**	**9,230,891**

The information on interest income and expense on related party transactions is disclosed in Note 29.

(In Ukrainian Hryvnias and in thousands)

21. Commission income and expense

	2022	2021
Payment cards	1,434,767	1,433,175
Settlement transactions with customers	521,542	527,348
Servicing loans, including under cooperation agreements	336,420	401,347
Cash operations	325,933	320,020
Documentary operations	277,313	162,347
Conversion operations	272,863	289,162
Fiduciary activities	6,168	6,588
Other	30,008	26,442
Commission income	**3,205,014**	**3,166,429**
Payment cards	(806,596)	(826,749)
Agency agreements	(242,562)	(157,130)
Settlement transactions	(56,781)	(67,153)
Documentary operations	(43,392)	(28,921)
Purchase and collection of cash	(33,697)	(32,907)
Fiduciary activities	(580)	(1,735)
Servicing loans	–	(5,002)
Other	(143)	(270)
Commission expense	**(1,183,751)**	**(1,119,867)**
Net commission income	**2,021,263**	**2,046,562**

The information on commission income and expense on related party transactions is disclosed in Note 29.

22. Other gains (losses)

	2022	2021
Result on modifications of financial assets that does not lead to de-recognition	85,232	(8,085)
Result on modification of leases	52,485	26
Income on disposal of property, plant, and equipment	19,694	18,683
Other rental income	18,688	18,241
Income on sales of commemorative coins	11,104	3,861
Dividends received	10,808	11,036
Penalties received	5,133	12,159
Rental income on investment properties (Note 10)	5,089	7,760
Income on insurance consideration received	1,520	1,087
Income on revaluation increase in property, plant, and equipment and non-current assets	1,103	–
Other income	20,899	9,274
Total other gains (losses)	**231,755**	**74,042**

(In Ukrainian Hryvnias and in thousands)

23. Operating expense

	2022	2021
Payroll, employee benefits, and mandatory contributions to the state funds	2,841,894	3,455,708
Depreciation and amortization (Note 10)	841,177	506,366
Maintenance of buildings and equipment	251,338	241,206
Contributions to the Individual Deposit Guarantee Fund	233,779	205,743
Audit and consulting services	177,870	309,518
Depreciation of right-of-use assets	147,599	155,967
Communication services	113,013	166,424
Cash lost	88,909	−
Charity activities	88,653	9,400
Advertising and entertainment expenses	83,260	255,157
Rent of premises	74,220	98,065
Expenses related to the workout on repayment of loans	45,993	85,294
Security services	34,970	41,612
State duties and taxes, other than income taxes	21,142	22,610
Staff training	3,602	19,457
Decrease in value of the Bank's properties	556	2,703
Other	230,327	206,059
Total operating expense	**5,278,302**	**5,781,289**

Decrease in payroll, employee benefits, and mandatory contributions to the state funds was caused by the partial unwinding of provision for unused vacations and allowance for bonuses and remuneration to employees.

Included in payroll, employee benefits, and mandatory contributions to the state funds was the unified social tax in the amount of UAH 450,323 thousand (2021: UAH 512,059 thousand).

Included in rent of premises were the expenses related to low-value leases in respect of which the exemption for recognition under IFRS 16 was applied for the year ended 31 December 2022 in the amount of UAH 4,967 thousand (2021: UAH 6,421 thousand) (Note 11).

24. Income taxes

The income tax expense comprised the following:

	2022	2021
Current tax expense	−	933,287
Deferred tax benefit	(87,615)	(9,607)
Income tax (income)/expense for the reporting period	**(87,615)**	**923,680**

The Bank's income received in the year ended 31 December 2022 was taxable at the rate of 18% (2021: 18%). The reconciliation of expected and actual tax expense is provided below:

	2022	2021
(Loss)/profit before income tax	**(485,338)**	**5,111,272**
Theoretical tax expense at the applicable statutory tax rate	(87,361)	920,029
Tax effect of deductible or non-taxable items:		
- Non-taxable income and other income exempt from taxation	(9,521)	(1,924)
- Non-deductible expenses	9,267	6,133
- Expenses deductible only for tax purposes	−	(558)
Income tax (income)/expense for the reporting period	**(87,615)**	**923,680**

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying amounts of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period when such differences are realized.

(In Ukrainian Hryvnias and in thousands)

24. Income taxes (continued)

As at 31 December 2022 and 2021, deferred tax assets and liabilities and their movements for the respective years were as follows:

	31 December 2021	Credited/ (charged) to other comprehensive income	Credited/ (charged) to profit or loss	31 December 2022
Tax effect of deductible and taxable temporary differences				
Expected credit losses on loan commitments	49,355	–	14,033	63,388
Securities measured at fair value through other comprehensive income	(27,356)	104,261	–	76,905
Property, plant, and equipment and investment property	(8,799)	(1,751)	55,218	44,668
Tax losses before carry forward	–	–	18,364	18,364
Estimated net deferred tax assets	**13,200**	**102,510**	**87,615**	**203,325**
Deferred tax assets	**13,200**	**102,510**	**87,615**	**203,325**

	31 December 2020	Credited/ (charged) to other comprehensive income	Credited/ (charged) to profit or loss	31 December 2021
Tax effect of deductible and taxable temporary differences				
Expected credit losses on loan commitments	50,647	–	(1,292)	49,355
Securities measured at fair value through other comprehensive income	(28,731)	1,375	–	(27,356)
Property, plant, and equipment and investment property	(19,698)	–	10,899	(8,799)
Estimated net deferred tax assets	**2,218**	**1,375**	**9,607**	**13,200**
Deferred tax assets	**2,218**	**1,375**	**9,607**	**13,200**

25. Risk management

Introduction

Risk is inherent to banking and is managed through the process of ongoing identification, measurement, and control of risks, subject to risk limits and other controls. The process of risk management is critical to the Bank’s continuing profitability, and each employee within the Bank is accountable for the risk exposures relating to his or her duties. The Bank is exposed to credit risk, liquidity risk, and market risk, the latter being subdivided into trading and non-trading risks. The bank is also exposed to operating, including information and legal risks, as well as compliance risks.

The independent risk control process does not include business risks, such as changes in the operating environment, technology, and industry. Those risks are monitored by the Bank’s strategic planning process.

Risk management process

The risk management policies, monitoring, and control are conducted by a range of specialized bodies and units within the Bank. The unit most actively involves in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairperson of the Management Board on Risks (the “CRO”) who has a role the Chief Risk Manager in the Bank.

The risk management units of the Bank are reporting and subordinated to the CRO of the Bank as the risk management system participants.

25. Risk management (continued)

Introduction (continued)

Supervisory Board of the Bank

The Bank’s Supervisory Board has the greatest authority over the Bank’s risk management and is responsible for establishing the effective risk management system within the Bank (strategic level). In accordance with the Bank’s Charter and Regulations on the Credit Control and the Credit Committee, the Supervisory Board is authorized to approve:

- Decisions on granting consents (upon submission of the management Board and the Credit Council) to perform a significant legal act, if the market value of the property or services, being the subject matter, ranges from 10% to 25% of the assets value based on the latest annual financial statements of the Bank;
- Decisions on performing legal actions with interest in the cases stipulated by the Charter and the legislation;
- Decisions on granting loans, extending the limit terms for related parties of the Bank, which exceed 1% of the regulatory capital of the Bank (upon submission of the Credit Council);
- Decisions on settling potentially non-performing assets of the Bank’s related parties, the amount of which exceeds 1% of the regulatory capital of the Bank for individuals and 3% for legal entities (upon submission of the Credit Council).

Management Board of the Bank

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to credit risk – to the credit bodies of the Bank (the Credit Council and the Credit Committee), as to the overall asset and liability management – to the Assets and Liabilities Management Committee of the Bank, authorities on operating risk management – to the Operating Risk Management Committee of the Bank, and approves the composition of those Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank’s credit policies. The final approval of credit policies is within the competence of the Supervisory Board.

Decisions of the Bank’s Credit Council on the possibility to carry out assets operations with borrowers in the amount of 10% or more of the regulatory capital of the Bank shall be approved by the Management Board of the Bank. In addition, the Management Board establishes UAH 50 million per customer as a limit for the powers of the Credit Council when lending to individuals.

Credit Council of the Bank

The Credit Council of the Bank is subordinated to the Management Board of the Bank and functions within the delegated powers under the Regulations on the Credit Council and the Credit Committee of the Bank. The Credit Council consists of five persons appointed by the Management Board of the Bank upon consultation with the Supervisory Board. Experts with the right of advisory vote appointed by the Supervisory Board of the Bank may also take part in the Credit Council meetings. The Credit Council may consider any lending projects (including the right to approve which it delegated to the Credit Committee), except for the powers being the competence of the Supervisory Board/Management Board.

The Bank’s Credit Council also approves credit product standards for corporate customers and sets limits for interbank transactions. The Bank’s Credit Council meets twice a week.

Credit Committee of the Bank

The Bank’s Credit Committee is accountable to the credit Council and considers lending projects (credit risk limit per counterparty/group of related counterparties):

(a) Up to UAH 120 million – lending to legal entities,

(b) Up to UAH 5 million – lending to individuals,

and performs other functions delegated by the Credit Council in accordance with the Regulations on the Credit Council and the Credit Committee of the Bank and the minutes of the Credit Council dealing with the delegation of powers. Meetings of the Committee are held several times in a week, as required.

Assets and Liabilities Management Committee of the Bank

The Assets and Liabilities Management Committee of the Bank is responsible for managing the Bank’s assets and liabilities and the overall financial structure. The Committee is also responsible for monitoring the interest rate, currency, and liquidity risks of the Bank.

Operating Risk Management Committee of the Bank

The Operating Risk Management Committee (the “ORMC”) is responsible for operating risk management with the aim to decrease operating losses, improve banking processes, systems, and technologies, develop, approve, and implement measures aimed at ensuring the Bank’s going concern.

25. Risk management (continued)

Introduction (continued)

For the purpose of operating management and response to identified operating risks and managing factors of operating risks, the Bank has established five subcommittees based on the Operating Risk Management Committee:

Personnel Subcommittee

Personnel Subcommittee analyzes matters on intentional and unintentional actions/errors by the personnel, assesses their qualifications and sufficiency, etc.

Processes Subcommittee

Processes Subcommittee analyzes the matters related to organization of processes, efficiency of the existing processes, and the need for optimization.

External Factors Subcommittee

External Factors Subcommittee analyzes incidents of intentional actions of third parties, liquidation of force-majeure consequences, and intentional damage to the Bank's reputation.

Systems Subcommittee

Systems Subcommittee analyzes the issues of IT systems quality, shapes common understanding of IT risks, and develops balanced solutions as to IT risks, with reference to the specifics and interests of the Bank's business units.

Information Security Subcommittee

Information Security Subcommittee considers matters related to development of the Information Security Management System, development of IT risk management culture, and management of IT incidents.

At each meeting, the Operating Risk Management Committee (the "ORMC") reviews the standard quarterly report on the operating risk events recorded in the reporting period, on the implementation of ORMC's decisions, on the effectiveness of the ICS based on the quarterly KCI (Key Control Indicator) monitoring, on the results of KPIs annual monitoring, and approves the KPIs list, as well as their threshold values for the next year. It approves the results of regular stress testing in respect of operating risk by the heads of structural units of JSC "FUIB" and approves the amount of risk appetite for operating risk for a year.

The ORMC also takes decisions on the administrations of the realized operating risk events, exercises control over the efficiency of the decisions made by the ORMC's Subcommittees, and evaluates the functioning efficiency of:

- The IT Security Management System;
- The Fraud Risk Management System;
- The Continuity Operation System;
- The Third-Party Risk Management System.

The ORMC approves the results of the annual Assessment of Adverse Factors on the Bank's Processes (Business Impact Analysis/BIA), approves the results of the annual practical testing of HQ's Business Continuity Plan (BCP), and monitors the results of distant training on the key mandatory distant courses.

Risk Management of the Bank

The Risk Management Division of the Bank is responsible for the development of risk management methodologies, procedures, and reporting allowing the Bank to perform a quantitative assessment of credit, market, operating, and liquidity risks. The structural units with the Risk Management Division are responsible for implementation and compliance with the procedures related to risk management, execute current control in respect of the above risks on a consistent basis, and control the execution of the decision taken by the Bank's Credit bodies, the Bank's Assets and Liabilities Management Committee, and the Bank's Operating Risk Management Committee.

Risk Measurement and Reporting System

The Bank's risks are measured using the methods that reflect both the expected losses likely to arise in the normal circumstances and unexpected losses which represent an estimate of the maximum actual losses based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs the worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Introduction (continued)

Risk monitoring and control are primarily performed based on the limits established by the Bank. Those limits reflect the business strategy and market environment of the Bank, as well as the level of the risk that the Bank is willing to accept, with an additional emphasis on the selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The information compiled from all the businesses is examined and processed in order to analyze, control, and early identify the risks. This information is presented and explained to the Management Board of the Bank, the Assets and Liabilities Management Committee of the Bank, the Operating Risk Management Committee of the Bank, the Credit Council of the Bank, and the head of each relevant business unit. The report includes the information on the aggregate credit exposure, credit risk forecasts, limit exceptions, liquidity and interest rate risks and changes in the risk profile, and the information on operating risk. On a monthly basis, the detailed reporting on liquidity, currency, interest rate, and operating risks, as well as risks related to certain industries and customers is prepared. Management assesses the appropriateness of the allowance for expected credit losses on a monthly basis.

In addition, the Bank has a risk planning and limiting approach in place within the risk appetite (risk acceptance and/or limits) approved by the Supervisory Board for the reporting period, as well as mechanisms for escalating limit violations.

Risk mitigation

As a part of its overall financial risk management process, for the purpose of managing interest rate, currency, credit, and liquidity risks, the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more details).

To mitigate market risks, the Bank may use derivative financial instruments to a limited extent.

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay the amounts in full when due. The Bank structures the levels of credit risk by placing limits on the amount of the risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through the regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing those lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral; and corporate guarantees.

Considering the martial law, the Bank performs an additional regular analysis of movements in the situation:

- Different "risk zones" are determined according to territorial characteristics – a high risk zone is selected, "red zone" is a territory that, according to the internal division of the Bank, has a high risk. The Bank includes into the "red zone" those customers who: 1) are located in the territory of hostilities, or are temporarily occupied; 2) do not have assets and cash flow outside the "red zone"; 3) do not have an opportunity to move business/assets outside the "red zone". The territorial feature is taken into account by the Bank when determining lending conditions, setting lending limits and approaches to allowances;
- In the case of individual consideration of borrowers and potential borrowers, the impact on the financial and economic condition of risks that have increased in connection with the martial law (logistics, exports of products, dependence on electricity supply, loss of suppliers and buyers, etc.) is considered. The increase in risks is reflected in the borrower's rating and, accordingly, affects the terms of lending and allowances.

Derivative financial instruments

The credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit related commitment risks

The Bank makes guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as loans, and those are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of statement of financial position, including derivatives before the effect of mitigation through the use of netting or collateral agreements, is shown in their carrying amounts as accurately as possible.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Credit risk (continued)

If recorded at fair value, their carrying amounts represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets

The credit quality of financial assets is managed by using by the Bank of both external and internal credit ratings of borrowers. The credit quality by classes based on the external ratings and the Bank’s credit rating system is disclosed in Notes 7, 8, and 9.

Impairment assessment

The allowance for expected credit losses is calculated based on the following: if, for a financial instrument, there is no evidence of increase in credit risk since origination, the ECL allowance is based on the 12 month expected credit loss (12m ECLs); if there is a significant increase in credit risk since origination or a financial instrument has been determined as impaired, the assessment is based on credit losses expected to arise over the life of a financial instrument (lifetime expected credit losses or LT ECLs).

The Bank has developed the methodology for identifying evidence of impairment and increase in credit risk since origination of a financial instrument and determined the required criteria on termination of such evidence. The Bank analyzes the loan portfolio (carried at amortized cost or at fair value through other comprehensive income) to identify and terminate the evidence of impairment and increase in credit risk since origination of a financial instrument on a monthly basis.

Based on this methodology, the Bank groups loans as follows (Stages):

- Stage 1 – For the financial instruments without evidence of impairment or increase in credit risk, the ECL allowance is based on 12m ECLs (on a portfolio basis). Stage 1 includes the financial instruments at initial recognition, loans with no evidence of increase in credit risk since origination of the financial instruments for which the credit risk has improved, and they have been reclassified from Stage 2.
- Stage 2 – For the financial instruments with evidence of increase in credit risk, the ECL allowance is based on lifetime ECLs (the allowance can be assessed on both individual and portfolio bases). Stage 2 included the financial instruments for which evidence of increase in credit risk has been identified, or the financial instruments for which the credit risk has improved, and they have been reclassified from Stage 3.
- Stage 3 – For the financial instruments with evidence of impairment, the ECL allowance is based on lifetime ECLs (the allowance can be assessed on both individual and portfolio bases).
- POCI – Purchased or originated credit-impaired financial assets that are credit impaired on initial recognition. At initial recognition, the amount of the financial instrument’s lifetime ECLs is included in the calculation of a credit adjusted effective interest rate. Subsequently, the Bank recognizes in profit or loss at each reporting date the amount of changes in the expected credit losses on such financial instruments for the lifetime as an impairment gain or loss.

Significant increase in credit risk and termination of evidence of increased credit risk

In determining whether there is a significant increase in credit risk of a financial instrument, the Bank considers reasonable and verified information that is relevant and accessible without excessive cost or effort, including both quantitative and qualitative information, as well as the analysis based on the Bank’s historical experience and the expert credit quality assessment.

To assess a significant increase in credit risk, the Bank identifies whether there has been a significant increase in credit risk as compared to the probability of default since the initial recognition of a financial instrument.

The key considerations in the analysis of a significant increase in credit risk include the identification of whether payments of the principal amount or interest on the loan are overdue for more than 30 days (for legal entities and individuals, except for credit cards for individuals – 35 days) and three days (for banks).

The additional evidences of a significant increase in credit risk of a financial instrument are, in particular, the following observable data:

- The Bank’s restructuring of the loan on the terms of repayment re-scheduling which the Bank does not consider to be a deterioration in the creditor’s terms, but which may indicate probable difficulties in fulfillment of an agreement in the future;
- Identification of indicators of a probable increase in credit risk determined as part of the ‘early warning signals’ procedure;

25. Risk management (continued)

Credit risk (continued)

- The customer is assigned to 'red zone' category;
- A decrease in the Bank's internal rating by 2 points for resident banks;
- A decrease in the international rating (according to a rating agency's bulletin, such as Standard & Poor's, Moody's, Fitch Rating) by 3 points or a recall of international rating for non-resident banks.

Termination of all of the above evidence of a significant increase in credit rating and fulfillment of contractual obligations by the customer for at least three months after the elimination of all evidence is considered a criterion that the credit risk has decreased to such a level that a financial instrument may be reclassified to Stage 1.

Impairment (default) and termination of evidence of impairment

In assessing the occurrence of a default event on the Bank's borrower's obligations, the qualitative and quantitative indicators developed within the Bank are taken into account.

The key considerations in the analysis of loan impairment include the identification of whether payments of the principal amount or interest on the loan are overdue for more than 90 days (for legal entities and individuals) and 7 days (for banks).

The additional evidences of a credit impairment of a financial instrument are, in particular, the following observable data:

- A borrower's or issuer's significant financial difficulties;
- The Bank's restructuring of a loan on the terms which the Bank would not consider in other circumstances (i.e. with a deterioration in the creditor's terms);
- Probability of a borrower's bankruptcy or liquidation;
- Probability of the Bank's taking such actions as sales of collateral (if any) or the forgiveness/sale of the loan at a discount;
- For resident banks, the public recognition of a bank as insolvent and imposing the temporary administration;
- For non-resident banks, a decrease in international ratings (according to a rating agency's bulletin, such as Standard & Poor's, Moody's, Fitch Rating) to default rating.

Evidence of default termination is the elimination of all of the above evidence of impairment and fulfillment of contractual obligations by the customer for at least six months after the elimination of all evidence of default.

Lifetime ECL allowance

For Stage 2 and 3 and POCI loans, the Bank calculates an allowance for expected credit losses for the lifetime of financial instruments either on a portfolio or on an individual basis.

The Bank determines the amount of allowance for expected credit losses for each significant loan (the Bank determines a materiality threshold separately for each type of lending – corporate lending, retail lending, and interbank transactions) on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, it ability to improve the performance once a financial difficulty has arisen, projected receipts and the realizable value of collateral, and the timing of the expected cash flows.

The Bank determines the ECL allowance on financial instruments provided to customers, each of which is not individually significant, on a portfolio basis. The expected credit losses are determined considering the following information: loss in a portfolio on a 12-month horizon in the prior periods, current economic environment, the time period until a possible loss in the future.

12 month ECL allowance

For Stage 1 loans, the Bank calculates the allowance based on 12-month expected credit losses on a portfolio basis. To calculate the allowance, the Bank classifies the portfolio of financial instruments to groups with similar characteristics (e.g., segment, customer rating, type of loan product, etc.). The expected credit losses are determined taking into account the following information: loss in the portfolio on a 12-month horizon in the prior periods, current economic environment, the time period until a possible loss in the future.

Input data for ECL assessment

The key inputs for ECL assessment on a portfolio basis are:

- Probability of default (PD);
- Loss given default (LGD).

25. Risk management (continued)

Credit risk (continued)

These figures are derived from internal statistical models and other historical data. The probability of default (PD) is an estimate at a specific date calculated based on the Bank's statistical data and evaluated using valuation tools adapted to different categories of counterparties. If counterparties facing a credit risk migrate between rating levels, this results in a change in the assessment of the respective probability of default.

The accumulated probability of default over the lifetime of a financial instrument is the probability that a financial instrument will be exposed to default over its lifetime. This probability is calculated for a group of homogeneous assets. The probability of default is based on the Bank's historical data.

The LGD rate is an amount of probable loss in the event of default. The Bank assesses the LGD based on the information regarding the collection rates of counterparty defaulters. The collection amount is calculated based on the discounting of cash flows using the effective interest rate as a discount factor.

The ECL allowance is reviewed by the credit risk management divisions to ensure its alignment with the Bank's overall policies.

The financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, the allowances are recorded against other credit related commitments.

To assess the allowances for expected credit losses, the Bank takes into account the information on changes in the economic environment. For the purpose of calculating the allowances for expected credit losses as at 31 December 2022, the Bank took into consideration the applied level of probability of default and loss given default considering the actual changes in the loan portfolio for the year ended 31 December 2022 (the PD and LGD statistics) taking into account the expert deterioration of indicators during the period of martial law.

Impact of the war against Russia on market risks

During the period from 24 February 2022 to 31 December 2022, the war against the Russian Federation had the following impact on market risks:

Liquidity risk. During the war period, the Bank's liquidity was maintained at a sufficient level. Liquidity risk indicators increased during the period starting from 24 February 2022. At the beginning of the war, the National Bank of Ukraine decided to support Ukrainian banks to prevent bankruptcy due to the outflow of customer funds. The analysis of own statistics on the outflow of the stable part of customer balances shows that FUIB suffered customer outflows in smaller amounts than the outflows during the crisis of 2014-2015. The liquidity situation was negatively affected not only by the NBU's refinancing of DGLBs, but also by the closure of the secondary market of DGLBs since the beginning of the war. However, starting from August 2022, the secondary market became operational, which made it possible to start selling DGLBs from the portfolio, converting DGLBs into primary liquidity.

Interest rate risk. From the beginning of the war, the National Bank of Ukraine began to finance the state budget by purchasing military government bonds, which was essentially a cash issue. Together with the fall in GDP, this caused an increase in inflation, which reached 26.6% as at the date of the financial statements preparation, according to the NBU's data. Taking into account a sharp increase in inflation, the NBU increased the discount rate from 10% to 25% on 3 June 2022. Accordingly, the interest rate corridor of the NBU: 23% – the interest rate for the NBU's deposit certificates, 27% – the placement rate for refinancing loans. In essence, the risk-free rate for UAH instantly became higher than the rate for the main types of assets. This affected the level of interest rate risk under the standard scenario from UAH 13.6 million as at 1 January 2022 to UAH 126 million as at 1 January 2023.

Foreign currency risk. At the beginning of the war, the National Bank of Ukraine fixed the official exchange rate of UAH against USD at UAH 29 per USD 1. Then, in July, the exchange rate was increased to the level of UAH 36 per USD 1. At the same time, the NBU allowed banks not to include in the calculation of the open currency position the allowances created to cover credit risk, fixing their level as at 21 July 2022. After analyzing the dynamics of the currency exchange rate, the Bank's specialists concluded that, during the 2014-2015 crisis, more significant one-day fluctuations of USD/UAH exchange rate were obtained than during 2022, therefore, the Bank continues to use the 2014-2015 scenario to calculate its foreign currency risk. Foreign currency risk is calculated for an open currency position in accordance with the requirements of the NBU (the allowances created after 21 July 2022 are not taken into account).

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of normal economic activities and under stress circumstances. To limit this risk, management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles, and monitors future cash flows and liquidity on a daily basis.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

To ensure a proper discharge of both its own and customers' obligations, the Bank has implemented the policy aimed at maintaining liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the customer deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called 'liquidity cushion' (the in-house standard VLA2). To assess the adequacy of the secondary liquidity cushion, the Bank uses the methodology of calculating the minimum required level of secondary liquidity for three stress outflow scenarios: light, medium, and heavy. The scenarios are based on the Bank's own statistics regarding outflows of customer accounts. Based on the liquidity risk stress testing results as at 31 December 2022, the secondary liquidity cushion created by the Bank covers the stress outflows under three business scenarios. The liquidity risk is measured by the Bank by using the gap analysis and forecasts regarding the expected future cash flows during a 1-year terms. In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU.

As at 31 December 2022, the indicated ratios were as follows:

Ratio	2022, %	2021, %
LCR – On 15 February 2018, the NBU approved a new prudential ratio for Ukrainian banks – the Liquidity Coverage Ratio (LCR). The value of the ratio should be < 100%		
LCR in total for all currencies	249	173
LCR in foreign currencies	328	211
NSFR – the Net Stable Funding Ratio (NSFR) approved by Resolution of the NBU's Management Board # 158 dated 24 December 2019. The schedule of implementing the NSFR: No less than 80% – effective from 1 April 2021; No less than 90% – effective from 1 October 2021; No less than 100% – effective from 1 April 2022.	149	127

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December 2022. The table shows the undiscounted liabilities repayable under the contract. The exception is trade derivatives delivered through the supply of underlying assets which are presented as the amounts receivable and payable by the remaining maturities. The repayments subject to the notice receipt are treated as repayable immediately. However, the Bank expects that many customers will not request the repayments to be made on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated in the Bank's deposit retention history.

As at 31 December 2022	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the Central Bank	89,189	170,237	261,781	529,315	5,993,151	**7,043,673**
Due to others banks	1,226,664	–	–	1,097,058	500	**2,324,222**
Customer accounts	73,690,966	9,090,098	2,989,478	5,182,838	190,208	**91,143,588**
Derivative financial instruments repayable through the delivery of underlying assets:						
- Contractual amounts payable	1,899,971	–	–	–	–	**1,899,971**
- Contractual amounts receivable	(1,806,164)	–	–	–	–	**(1,806,164)**
Lease liabilities	471	41,869	38,962	58,092	184,779	**324,173**
Other financial liabilities	2,546,201	–	–	–	–	**2,546,201**
Total undiscounted financial liabilities	**77,647,298**	**9,302,204**	**3,290,221**	**6,867,303**	**6,368,638**	**103,475,664**

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

As at 31 December 2021	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the Central Bank	45,481	86,560	133,508	269,951	6,988,911	**7,524,411**
Due to others banks	1,118,728	–	38,189	272,782	15,498	**1,445,197**
Customer accounts	56,810,570	9,900,941	8,105,614	6,518,043	306,354	**81,641,522**
Derivative financial instruments repayable through the delivery of underlying assets:						
- Contractual amounts payable	38,668	–	–	–	–	**38,668**
- Contractual amounts receivable	(30,464)	–	–	–	–	**(30,464)**
Lease liabilities	15,515	31,031	46,546	93,092	268,236	**454,420**
Other financial liabilities	2,508,955	–	–	–	–	**2,508,955**
Total undiscounted financial liabilities	**60,507,453**	**10,018,532**	**8,323,857**	**7,153,868**	**7,578,999**	**93,582,709**

The table below summarizes the contractual maturities of the Bank's actual and potential financial liabilities.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2022	317,990	1,431,050	1,079,387	2,314,211	1,300,492	**6,443,130**
2021	768,699	629,348	1,588,777	2,536,631	1,336,566	**6,860,021**

The financial commitments and contingencies include guarantees and letters of credit the drawdowns on which are possible at any time after the reporting date until the contractual maturity under the instrument. The Bank expects that not all contingent liabilities or commitments will be drawn before the relevant contracts expire.

The table below summarizes the analysis of assets and liabilities by final contractual maturities of assets and liabilities as at 31 December 2022 (the amounts are stated at carrying values):

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash and cash equivalents	46,455,869	–	–	–	–	**46,455,869**
Loans and advances to banks	–	1,141,937	961,320	1,387,383	276	**3,490,916**
Investments in securities	72,890	2,646,618	1,273,801	2,910,408	5,683,054	**12,586,771**
Loans and advances to customers	20,540,274	6,307,062	3,806,768	7,121,462	5,994,671	**43,770,237**
Other financial assets	2,419,697	–	–	–	–	**2,419,697**
Total financial assets	**69,488,730**	**10,095,617**	**6,041,889**	**11,419,253**	**11,678,001**	**108,723,490**
Liabilities						
Due to the Central Bank	–	499	–	–	4,187,805	**4,188,304**
Due to others banks	1,226,664	–	–	1,097,058	500	**2,324,222**
Customer accounts	73,486,803	8,901,615	2,791,076	4,939,617	180,777	**90,299,888**
Lease liabilities	399	35,438	32,978	49,170	156,398	**274,383**
Derivative financial liabilities	93,807	–	–	–	–	**93,807**
Other financial liabilities	2,546,201	–	–	–	–	**2,546,201**
Total financial liabilities	**77,353,874**	**8,937,552**	**2,824,054**	**6,085,845**	**4,525,480**	**99,726,805**
Potential off-balance sheet liabilities	6,443,130	–	–	–	–	6,443,130
Liquidity gap arising from financial instruments	**(14,308,274)**	**1,158,065**	**3,217,835**	**5,333,408**	**7,152,521**	**2,553,555**

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Included in "Customer Accounts" are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 15). Management of the Bank believes that most of the term deposits of individuals will not be withdrawn before the maturity date, thus, customer accounts are recorded by the contractual maturities. Total deposits of individuals as at 31 December 2022 amounted to UAH 20,618,516 thousand (2021: UAH 22,401,540 thousand).

Term deposits of individuals	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2022	5,444,185	7,735,312	2,374,750	4,728,487	335,782	**20,618,516**
2021	2,988,220	6,290,494	6,776,635	6,083,897	262,294	**22,401,540**

The table below summarizes the analysis of assets and liabilities by final contractual maturities of assets and liabilities as at 31 December 2021 (the amounts are stated at carrying values):

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash and cash equivalents	21,326,213	–	–	–	–	**21,326,213**
Loans and advances to banks	2,362	1,117,215	894,062	788,863	–	**2,802,502**
Investments in securities	7,404,500	417,615	971,083	2,483,946	11,864,988	**23,142,132**
Loans and advances to customers	20,274,957	7,727,326	8,288,181	9,179,727	7,616,602	**53,086,793**
Derivative financial assets	10,814	–	–	–	–	**10,814**
Other financial assets	1,625,557	–	–	–	–	**1,625,557**
Total financial assets	**50,644,403**	**9,262,156**	**10,153,326**	**12,452,536**	**19,481,590**	**101,994,011**
Liabilities						
Due to the Central Bank	–	–	–	–	5,693,029	**5,693,029**
Due to others banks	1,118,728	–	38,189	272,782	15,498	**1,445,197**
Customer accounts	56,669,799	9,689,030	7,908,440	6,308,180	296,332	**80,871,781**
Lease liabilities	12,973	25,947	38,920	77,840	224,288	**379,968**
Derivative financial liabilities	8,204	–	–	–	–	**8,204**
Other financial liabilities	2,508,955	–	–	–	–	**2,508,955**
Total financial liabilities	**60,318,659**	**9,714,977**	**7,985,549**	**6,658,802**	**6,229,147**	**90,907,134**
Potential off-balance sheet liabilities	6,860,021	–	–	–	–	6,860,021
Liquidity gap arising from financial instruments	**(16,534 277)**	**(452,821)**	**2,167,777**	**5,793,734**	**13,252,443**	**4,226,856**

The maturity analysis does not reflect the historical stability of current liabilities. Their realization historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to one month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under the situation when there may a partial withdrawal of customers' deposits from the Bank and incase of further deterioration of the economic situation.

As at 31 December 2022, the Bank had a cumulative inconsistency between the 12-month maturities of financial assets and liabilities in the amount of UAH 4,598,966 thousand (31 December 2021: UAH 9,025,587 thousand). Such a liquidity inconsistency arises due to the fact that the important source for the Bank's funding is represented by customers funds on current accounts. The Bank has the investment securities measured at fair value through other comprehensive income in the amount of UAH 5,683,054 thousand with the maturity over 12 months that may be early sold by the Bank, if needed (31 December 2021: UAH 11,864,988 thousand).

The Bank's management believes that, in spite of a substantial portion of the customers' demand deposits, the diversification of those deposits by the number and types of depositors, as well as the past experience of the Bank would indicate that those customer accounts provide for a long-term and stable source of funding for the Bank.

25. Risk management (continued)

Market risk

Market risk – non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, exchange rates, and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored by using the sensitivity analysis.

Interest rate risk

Interest rate risk is a potential threat of loss occurrence, decrease in income or decrease in cost of capital of the bank as a result of unfavorable changes in interest rates in the market. The risk arises primarily as a result of differences in maturities of assets and liabilities of the Bank in terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure in the statement of financial position by assets and liabilities by the residual term to the repricing date that are sensitive to changes in interest rates.

To assess its interest rate risk, the Bank uses the gap analysis if interest-bearing assets and liabilities, performs the sensitivity analysis of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance with the report of spread and margin changes.

The Bank assesses interest rate risk by the baseline scenario of parallel shift in the yield curve towards the increase in interest rates. In 2022, after the NBU increased its discount rate, the Bank developed shock rate shifts for the baseline scenario based on the current level of interest rates used in the Bank and the level net of the NBU's risk rate.

As at 31 December 2022, the Bank was exposed to interest rate risk, whose realization may have an impact on net interest income within one-year horizon – a possible decrease by UAH 126 million (31 December 2021: UAH 13.8 million). Had there been increase in the yield to maturity by 1 percentage point, the revaluation surplus for securities in equity would lower by UAH 91,324 thousand as at 31 December 2022 (31 December 2021: by UAH 49,880 thousand).

The Bank assesses the above level of interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration the transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with the internal policies of the Bank, the delegation of authority regarding the change in interest rates is established. The control over transaction efficiency with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

Foreign currency risk

Currency risk is the risk connected with the impact of foreign exchange rate fluctuations on the value of financial instruments.

The Bank performs a currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration the recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II Market Risk Framework, December 2010. VaR allows to assess maximum possible extent of losses with the set confidence level for a certain period of time.

The Bank performs a VaR calculation using the historical modelling method to assess the currency risk in the normal and stressed conditions of the financial market development. The VaR calculation is based on 251 days of unweighted historical data on market currency rates, the calculation period during which the Bank would be potentially able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

In determining the currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount of "1" in accordance with the Basel recommendations.

Disregarding the fact that VaR allows obtaining a currency risk assessment, it is needed to consider the following weaknesses in the method, in particular:

- Using previous exchange rate changes in respect of currencies and precious metals does not allow to fully estimate possible fluctuations in foreign currency and precious metals exchange rates in the future.
- Using a 10-day calculation period stipulates that all open positions in foreign currencies and precious metals may be closed within 10 trading days. This estimation may inaccurately reflect the currency risk value in the periods of diminished market liquidity, whereby the period of position closing by the Bank may increase.
- Using 99% one-sided confidence level does not allow to estimate the volume of losses expected with 1% probability; and

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Foreign currency risk (continued)

- VaR calculation is performed based on the open positions of the Bank in foreign currencies and precious metals as at the end of the day and may not reflect the risk accepted by the Bank during the day.

The results of currency risk calculations using the VaR method as at 31 December are provided in the table below:

Index	2022	2021
Currency risk, without the diversification considered		
USD	14,873	93,735
EUR	9,707	5,368
Other currencies	6,557	3,234
Total currency risk, without the diversification considered	**31,137**	**102,337**
Diversification effect	(24,227)	(14,034)
Currency risk, with the diversification considered	**6,910**	**88,303**

The above data are calculated on the basis of internal management reporting of the Bank based on the financial statements prepared in accordance with IFRS.

The Bank's Asset and Liability Management Committee reviews the results of currency risk assessment on a monthly basis.

Operating risk

The Operating Risk Management System has been effective from 2011, and it is integrated into the Bank's overall risk management system. The Bank calculates the value of acceptable operating risk on an annual basis – "risk appetite" for the next 12 months. The risk appetite is approved by the Operating Risk Management Committee (the "ORMC") and considered in the course of budgeting (for 2022, the risk appetite in the amount of UAH 29.5 million). The Supervisory Board monitors, on a quarterly basis, the Bank's compliance with the 'risk appetite' set. If there emerge any significant operating risk events, an immediate notification to the ORMC, the Management Board, and the Supervisory Board is provided for, as well as a detailed investigation of their reasons is performed and measures to be undertaken for avoidance of those events recurrence in the future are taken. In 2022, 78.6% of actual losses from operating risk were property losses caused by the hostilities in the territory of Ukraine.

The Operating Risk Management System includes, in particular:

- Single classifier of operating risks and the internal database of operating risk events;
- Weekly consolidation of operating risk events occurred across the Bank received from the Risk Officers of Structural Units;
- Quarterly monitoring of key risk indicators ("KRIs");
- Annual self-assessment of operating risk;
- Quarterly stress testing of operating risk in accordance with the requirements of the National Bank of Ukraine;
- Annual calculation of the risk appetite and risk limits;
- Annual calculation of the risk appetite and capital adequacy to cover operating risk in accordance with the Basel 3 recommended approach.

All registered operating risk events are subject to a detailed review and assessment in respect of adverse consequences, and the events requiring additional management decisions or development of additional mitigation measures are considered by the ORMC Subcommittees or the Operating Risk Management Committee.

The Bank accumulates external operating risk events to work out its stress test scenarios. To obtain a uniform assessment of the level of operating risk, a comparative analysis of the results by different approaches is carried out (the resulting risk level is assessed in accordance with the scale: low, medium, high).

The Bank pays a special attention to managing IT security and fraud risks in respect of which management has established zero tolerance and introduced separate reporting to the ORMC and the Supervisory Board. Information and legal risks are managed within the Operating Risk Management System.

To ensure continuous operations, the Bank carries out a hands-on testing of the Business Continuity Plan and the Plan for Returning to Normal Business Operations.

Also, to control the quality of outsourcing, the Bank has the Third Party Risk Management System in place that enables timely identification and minimization of risks of cooperation with counterparties.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Operating risk (continued)

The efficiency of the Operating Risk Management System is evidenced by the results of the 3-Tier Internal Control System (current control, risk management control, and internal audit). The Internal Control System also includes three tiers of protection:

- Tier 1: Business units and supporting units;
- Tier 2: Risk management units and Compliance Control Department;
- Tier 3: Internal Audit Department.

The Bank organizes annual personnel trainings on operating risk management (with a special focus on fraud risk and information security, requirements to business continuity) and rules of the Internal Control System functioning.

26. Fair value disclosures

Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair value of the Bank’s financial instruments that are carried at amortized cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2022			2021		
	Carrying amount	**Fair value**	**Difference**	**Carrying amount**	**Fair value**	**Difference**
Financial assets						
Cash and cash equivalents	46,455,869	46,455,869	–	21,326,213	21,326,213	–
Loans and advances to banks						
- Interest income accrued on current accounts and overnight deposits with other banks	–	–	–	6	6	–
- Term deposits with other banks	3,490,916	3,490,916	–	2,802,496	2,802,496	–
Loans and advances to customers						
- Corporate loans	32,410,067	32,135,648	(274,419)	32,072,936	32,446,219	373,283
- Finance leases	1,468,905	1,327,930	(140,975)	1,450,702	1,455,392	4,690
- Consumer loans	3,112,362	3,112,362	–	8,144,475	8,144,475	–
- Credit cards and overdrafts	6,735,065	6,735,065	–	11,359,200	11,359,200	–
- Mortgage loans	43,838	34,319	(9,519)	59,480	52,871	(6,609)
Derivative financial assets	–	–	–	10,814	10,814	–
Other financial assets	2,419,697	2,419,697	–	1,625,557	1,625,557	–
Financial liabilities						
Due to the Central Bank	4,188,304	4,188,304	–	5,693,029	5,693,029	–
Due to others banks:						
- Current accounts of other banks	498,903	498,903	–	580,855	580,855	–
- Term deposits of other banks	1,825,319	1,825,319	–	864,342	864,342	–
- Borrowings from other banks	–	–	–	–	–	–
Customer accounts						
- Legal entities	52,169,417	52,192,263	(22,846)	45,634,763	45,647,021	(12,258)
- Individuals	38,130,471	38,153,602	(23,131)	35,282,371	35,361,237	(78,866)
Derivative financial liabilities	93,807	93,807		8,204	8,204	
Other financial liabilities	2,546,201	2,546,201	–	2,508,955	2,508,955	–
Total unrecognized change in unrealized fair value			**(470,890)**			**280,240**

The following describes the methods and assumptions used in determining the fair values of the financial instruments that are not recorded at fair value in the financial statements.

Assets the fair value of which approximates the carrying amounts

For the financial assets and financial liabilities that are liquid or have a short-term maturity (up to three months), it is assumed that their carrying amounts approximate their fair values. Such an assumption is also applied to demand deposits, savings accounts without a specific maturity, and financial instruments with variable interest rates.

(In Ukrainian Hryvnias and in thousands)

26. Fair value disclosures (continued)

Financial assets and financial liabilities carried at amortized cost

For the quoted bonds, the fair value is calculated based on the quoted market prices at the reporting date. For the instruments the quoted market prices of which are not available and the fair values of which differ from their carrying amounts, in particular, loans and advances to customers, loans and advances to banks, due to the Central Bank, due to others banks, customer accounts, other financial assets and liabilities, a discounted cash flow model is used based on the current market rates offered for similar financial instruments with similar terms and conditions, similar credit risk and maturities.

Assets and liabilities measured at fair value or the fair value of which is disclosed

All assets and liabilities the fair value of which is measured or disclosed in the financial statements are classified by the fair value sources hierarchy presented below on the lowest level input that is significant to the fair value measurement taken as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which all inputs which have a significant effect on the fair value recorded belong to the lowest hierarchy level and are, directly or indirectly, based on the market data; and
- Level 3: Valuation techniques which use inputs which have a significant effect on the fair value recorded belong to the lowest hierarchy level and are not observable in the market.

For the assets and liabilities recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest input that is significant to the fair value measurement taken as a whole) at the end of each reporting period.

The fair value measurement at Level 3 of the fair value hierarchy has been calculated using the discounted cash flow method based on the estimated future expected cash flows discounted using the interest rate prevailing at the reporting date on similar products of the Bank and the remaining period.

For the purpose of disclosing fair values, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or liability and the level of the fair value hierarchy:

		Fair value measurement			
31 December 2022	**Measurement date**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Government debt securities	31 December 2022	–	12,579,714	–	**12,579,714**
Property, plant, and equipment – buildings	1 December 2022	–	–	768,143	**768,143**
Works of art	1 December 2016	–	–	17,120	**17,120**
Investment property	1 December 2022	–	–	59,168	**59,168**
Assets the fair value of which is disclosed					
Loans and advances to customers	31 December 2022	–	–	43,345,324	**43,345,324**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2022	–	93,807	–	**93,807**
Liabilities the fair value of which is disclosed					
Customer accounts	31 December 2022	–	–	90,345,865	**90,345,865**

(In Ukrainian Hryvnias and in thousands)

26. Fair value disclosures (continued)

31 December 2021	Measurement date	Fair value measurement Level 1	Level 2	Level 3	Total
Assets measured at fair value					
Government debt securities	31 December 2021	–	17,025,685	–	**17,025,685**
Derivative financial assets	31 December 2021	–	10,814	–	**10,814**
Deposit certificates issued by the NBU	31 December 2021	–	6,109,390	–	**6,109,390**
Property, plant, and equipment – buildings	1 December 2021	–	–	797,767	**797,767**
Works of art	1 December 2016	–	–	17,120	**17,120**
Investment property	1 December 2021	–	–	62,099	**62,099**
Assets the fair value of which is disclosed					
Loans and advances to customers	31 December 2021	–	–	53,458,157	**53,458,157**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2021.	–	8,204	–	**8,204**
Liabilities the fair value of which is disclosed					
Customer accounts	31 December 2021	–	–	81,008,258	**81,008,258**

The following is the description of the fair value determination for the financial instruments carried at fair value by using valuation techniques. Those incorporate the Bank's estimates and judgments that a market participant would make when assessing the instruments.

Derivative financial instruments

The derivative financial instruments measured using the valuation techniques that are based on market observations are mainly represented by currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models using the present value calculations. Those models incorporate varied inputs, including the credit quality of counterparties, forward exchange spot and forward rates and interest rate curves.

Investments in securities

The securities measured using the valuation techniques are primarily represented by unquoted debt securities. Those securities are measured using the discounted cash flows models which, sometimes, incorporate only the data observable in the market, such as interest rate, and, at other times, use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of an investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

Buildings, works of art, and investment property

The basis for assessment is the sales comparison approach which is further confirmed by the income approach. In the course of revaluation, independent appraiser use certain judgments and estimates when determining the comparable buildings to be used in the sales comparison approach and useful lives of the assets revalued and capitalization rates to be applied for the income approach.

During the years ended 31 December 2022 and 2021, the Bank did not transfer any financial assets or financial liabilities between levels of the fair value hierarchy.

27. Contingencies and other commitments

Legal proceedings

From time to time and in the normal course of business, the Bank acts as a party in varied litigation and disputes under the claims filed against it. Based on its own estimates and comments of in-house specialists, management believes that, the ultimate amount of obligations that may arise as a result of legal proceedings and disputes will not have a material adverse impact on the Bank's financial position or performance.

(In Ukrainian Hryvnias and in thousands)

27. Contingencies and other commitments (continued)

Tax and other regulatory compliance

The Ukrainian legislation and regulations regarding taxation and other operating matters, including currency exchange control and customs regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional, and national authorities, as well as other government bodies. Instances of inconsistent interpretations are not unusual. The Bank’s management believes that its interpretation of the relevant legislation is appropriate, and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

Capital expenditure commitments

As at 31 December 2022, the Bank had capital expenditure commitments in respect of purchases of equipment in the amount of UAH 4,353 thousand (31 December 2021: UAH 56,871 thousand). The Bank’s management has already allocated the required resources in respect of those commitments. The Bank’s management believes that the future net income and funding will be sufficient to cover those commitments and similar obligations.

Credit related commitments

The guarantees and standby letters of credit which represent irrevocable assurances that the Bank will make payments in the event that a customer fails to meet its obligations to third parties, carry the risk of the clients’ defaults, or inability to fulfill the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings of the Bank on behalf of the customers authorizing third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits, and, therefore, carry a lower risk than direct borrowings.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans. The Bank is exposed to potential loss on credit related commitments. However, due to its revocable nature, the Bank may refuse from granting loans due to the deterioration of the customer’s solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash needs, as those financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank were as follows:

	2022	**2021**
Confirmed import letters of credit	180,000	193,640
Non-confirmed import letters of credit	176,979	89,778
Cash collateral (Note 15)	(123,602)	(90,581)
Total letters of credit, less cash collateral	**233,377**	**192,837**

As at 31 December 2022, the allowance for letters of credit amounted to UAH 2,434 thousand (31 December 2021: UAH 1,204 thousand).

The guarantees issued were as follows:

	2022	**2021**
Guarantees and promissory notes	6,086,151	6,576,603
Cash collateral (Note 15)	(2,139,705)	(1,239,376)
Total guarantees and promissory notes, less cash collateral	**3,946,446**	**5,337,227**

As at 31 December 2022, the allowance for guarantees and promissory notes amounted to UAH 260,036 thousand (31 December 2021: UAH 270,512 thousand).

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2022 was UAH 29,384,169 thousand (31 December 2021: UAH 40,561,514 thousand). Management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the customer or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits. Such events include, inter alia, a deterioration in the financial position of the customer, a reduction in cash flows to a customer’s current account, loss of collateral or a significant decrease in its fair value, decisions of the regulatory authorities affecting the Ukrainian monetary market.

(In Ukrainian Hryvnias and in thousands)

27. Contingencies and other commitments (continued)

Movements in the allowance for credit-related commitments, guarantees, and letters of credit during the year ended 31 December 2022 were as follows:

Commitments, guarantees, and letters of credit	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2022	**17,290**	**–**	**254,426**	**271,716**
New commitments, guarantees, and letters of credit	13,525	–	–	13,525
Repaid commitments, guarantees, and letters of credit	(9,057)	(181)	(64)	(9,302)
Transfers to Stage 2	(177)	177	–	–
Transfers to Stage 3	(173)	–	173	–
Change in expected credit risk estimation	312	112	(57,486)	(57,062)
Translation differences	3,039	4	40,550	43,593
As at 31 December 2022 (Note 17)	**24,759**	**112**	**237,599**	**262,470**

Movements in the allowance for other losses during the year ended 31 December 2022 were as follows:

	2022
Expected credit losses to cover other losses as at 1 January 2022	**2,479**
Charges to allowance for commitments, guarantees, and letters of credit during the reporting period	49,626
Effect of translation differences	388
As at 31 December 2022 (Note 17)	**52,493**

Movements in the allowance for credit-related commitments, guarantees, and letters of credit during the year ended 31 December 2021 were as follows:

Commitments, guarantees, and letters of credit	Stage 1	Stage 3	Total
Expected credit losses as at 1 January 2021	**8,815**	**268,833**	**277,648**
New commitments, guarantees, and letters of credit	14,177	–	14,177
Repaid commitments, guarantees, and letters of credit	(3,605)	–	(3,605)
Change in expected credit risk estimation	(1,654)	13,664	12,010
Translation differences	(443)	(28,071)	(28,514)
As at 31 December 2021 (Note 17)	**17,290**	**254,426**	**271,716**

Movements in the allowance for other losses during the year ended 31 December 2021 were as follows:

	2021
Expected credit losses to cover other losses as at 1 January 2021	**3,722**
Charges to allowance for commitments, guarantees, and letters of credit during the reporting period	(1,200)
Effect of translation differences	(43)
As at 31 December 2021 (Note 17)	**2,479**

The analysis of credit related commitments, guarantees, and letters of credit as at 31 December 2022 was as follows:

As at 31 December 2022	Rating	Stage 1	Stage 2	Stage 3	Total
Letters of credit issued by the Bank					
Corporate customers	High rating	53,377	–	–	**53,377**
Corporate customers	Standard rating	180,000	–	–	**180,000**
Corporate customers	Below standard rating	123,602	–	–	**123,602**
Guarantees issued					
Corporate customers	High rating	2,354,861	2,018	–	**2,356,879**
Corporate customers	Standard rating	2,208,236	4,000	–	**2,212,236**
Corporate customers	Impaired	–	–	390,194	**390,194**
Banks	From B- to B+	1,099,440	–	–	**1,099,440**
Banks	Unrated	27,402	–	–	**27,402**

(In Ukrainian Hryvnias and in thousands)

27. Contingencies and other commitments (continued)

The analysis of credit related commitments, guarantees, and letters of credit as at 31 December 2021 was as follows:

As at 31 December 2021	Rating	Stage 1	Stage 2	Stage 3	Total
Letters of credit issued by the Bank					
Corporate customers	High rating	15,612	–	–	**15,612**
Corporate customers	Standard rating	235,932	–	–	**235,932**
Corporate customers	Below standard rating	31,874	–	–	**31,874**
Guarantees issued					
Corporate customers	High rating	3,596,659	–	–	**3,596,659**
Corporate customers	Standard rating	1,701,100	–	–	**1,701,100**
Corporate customers	Below standard rating	331,303	–	–	**331,303**
Corporate customers	Impaired	–	–	390,672	**390,672**
Banks	From B- to B+	321,665	–	–	**321,665**
Banks	Unrated	235,204	–	–	**235,204**

Corporate customers are rated using the internal rating model (Note 9). Credit rating of financial institutions is based on the rating assigned by Fitch. In the event a financial institution has not been assigned a rating by Fitch, but has ratings assigned by S&P or Moody’s, the relevant rating should be brought in line with that of Fitch.

28. Financial assets pledged as collateral

The Bank pledged the following assets as collateral:

	2022	2021
Carrying value of assets		
- Investments in securities measured at fair value through other comprehensive income	4,467,729	7,301,729
Total	**4,467,729**	**7,301,729**
Carrying value of relevant liabilities		
- Due to the Central Bank	4,188,304	5,693,029
Total	**4,188,304**	**5,693,029**

As at 31 December 2022, the Bank transferred the securities measured at fair value through other comprehensive income, with the carrying value of UAH 1,976,508 thousand as collateral under a business agreement with the National Bank of Ukraine (31 December 2021: UAH 1,984,243thousand).

29. Related party transactions

For the purpose of these financial statements, parties are considered to be related if they are under common control or one party has the ability to control the other party or can exercise a significant influence over the other party in making financial and operating decisions, in accordance with the requirements of IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, entities under common control, and other related parties. These transactions include making settlements, granting loans, attracting deposits, financing commercial activities, and conducting foreign currency transactions.

(In Ukrainian Hryvnias and in thousands)

29. Related party transactions (continued)

The outstanding balances as at 31 December 2022 and 2021, as well as income and expense for the years ended 31 December 2022 and 2021 were as follows:

As at and for the year ended 31 December 2022	Parent	Entities under ommon control	Management	Other related parties
Assets				
Loans and advances to customers	–	525,229	92	8
(UAH – interest rate, % p.a.)	–	–	*(19.24)*	*(46.00)*
(USD, EUR – interest rate, % p.a.)	–	*(6.00)*	–	–
Allowance for loan impairment	–	(179,577)	(9)	(1)
Other financial and non-financial assets	3	13,912	62	–
Liabilities				
Customer accounts	(140)	(14,172,949)	(91,474)	(245,368)
(UAH – interest rate, % p.a.)	–	*(14.57)*	*(14.17)*	*(11.90)*
(USD, EUR – interest rate, % p.a.)	–	*(0.38)*	*(0.02)*	*(0.83)*
Other financial and non-financial liabilities	–	(287,876)	(11)	(4)
Credit related liabilities				
Revocable commitments to extend loans	–	497,148	1,098	725
Guarantees and promissory notes	–	1,316,461	–	–
Letters of credit	–	2,014	–	–
Income/(expense)				
Interest income	–	25,324	71	2
Interest expense	–	(790,818)	(2,415)	(5,594)
Commission income	113	155,180	701	1,170
Other income	–	8,684	11	18
Charges to allowance for commitments, guarantees, and letters of credit	–	418	–	–
Allowance for loan impairment	–	(163,297)	15	9
Operating expense and other income/(expense)	–	241,213	661	–

As at and for the year ended 31 December 2021	Parent	Entities under common control	Management	Other related parties
Assets				
Loans and advances to customers	‘–	441,538	513	121
(UAH – interest rate, % p.a.)	–	–	*(24.67)*	*(42.03)*
(USD, EUR – interest rate, % p.a.)	–	*(6.03)*	–	–
Allowance for loan impairment	–	(11,918)	(24)	(5)
Other financial and non-financial assets	3	6,875	95	–
Liabilities				
Customer accounts	(141)	(16,493,264)	(229,357)	(187,857)
(UAH – interest rate, % p.a.)	–	*(5.76)*	*(6.72)*	*(9.56)*
(USD, EUR – interest rate, % p.a.)	–	*(0.09)*	*(0.01)*	*(0.09)*
Other financial and non-financial liabilities	–	(6,036)	(6)	(18)
Credit related liabilities				
Revocable commitments to extend loans	–	502,789	820	497
Guarantees and promissory notes	–	1,707,529	–	–
Letters of credit	–	34,056	–	–
Income/(expense)				
Interest income	–	43,881	138	1
Interest expense	–	(470,760)	(2,641)	(4,245)
Commission income	181	445,514	262	13,531
Other income	–	235	6	18
Charges to allowance for commitments, guarantees, and letters of credit	–	(1,046)	–	–
Allowance for loan impairment	–	27,947	(10)	(3)
Operating expense and other income/(expense)	(375)	(43,663)	(840)	(1)

(In Ukrainian Hryvnias and in thousands)

29. Related party transactions (continued)

Interest rate on loans to management in the form of credit cards and overdrafts amounted to 35.88% after grace period and 0.01% under consumer loans (effective rate: 49.27%), both for 2022 and 2021.

Allowance for loan impairment in respect of loans to related parties was created on both a collective and individual basis.

During the year ended 31 December 2022, changes in the amount of loans to related parties were as follows:

	Parent	Entities under common control	Management	Other related parties
Loans to related parties granted during the year	–	–	1	9
Amounts repaid by related parties during the year	–	(11,467)	(384)	(122)
Translation differences and other changes	–	95,158	(38)	–

During the year ended 31 December 2021, changes in the amount of loans to related parties were as follows:

	Parent	Entities under common control	Management	Other related parties
Loans to related parties granted during the year	–	33,463	211	56
Amounts repaid by related parties during the year	–	(167,764)	(225)	–
Translation differences and other changes	–	(21,550)	27	–

During the year ended 31 December 2022, remuneration to 10 members of the Management Board comprised salaries in the amount of UAH 104,452 thousand (2021: UAH 85,075 thousand), mandatory contributions to the state funds in the amount of UAH 2,594 thousand (2021: UAH 2,393 thousand), and allowance for additional remuneration payment in the amount of UAH 27,803 thousand (2021: UAH 255,049 thousand). For the 12 months of 2022, payments to five members of the Supervisory Board amounted to UAH 20,560 thousand (12 months of 2021: UAH 21,488 thousand) and mandatory contributions to the state funds in the amount of UAH 1,297 thousand (2021: UAH 1,414 thousand). For the 12 months of 2022, remuneration to significant persons of the Bank amounted to UAH 2,876 thousand (12 months of 2021: UAH 6,685 thousand), including mandatory contributions to the state funds in the amount of UAH 491 thousand (2021: UAH 949 thousand) and allowance for payment of additional benefits in the amount of UAH 307 thousand (2021: UAH 802 thousand).

During 2022, software development and support services were provided to the Bank by a related party in the amount of UAH 639,314 thousand.

30. Earnings per share

Basic earnings per share are calculated by dividing annual net profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period, without taking into account treasury shares repurchased from shareholders. The Bank has no converted preferred shares, thus, diluted earnings per share is equal to basic earnings per share.

	2022	2021
Profit for the reporting period	(397,723)	4,187,592
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
Earnings per share, basic and diluted (in UAH per share)	**(27.77)**	**292.35**

31. Changes in liabilities relating to financing activities

Changes in cash flows from financing activities as recorded in the statement of cash flows for the years ended 31 December 2022 and 2021 were as follows:

	Dividend liabilities	Lease liabilities
Carrying amounts as at 31 December 2020	**–**	**328,639**
Distribution of retained earnings to dividend payments (Note 19)	1,304,046	–
Repayment	(1,304,046)	(154,242)
Other	–	205,571
Carrying amounts as at 31 December 2021	–	**379,968**
Repayment	–	(113,018)
Other	–	7,433
Carrying amounts as at 31 December 2022	**–**	**274,383**

(In Ukrainian Hryvnias and in thousands)

32. Capital

The item "Other" includes modifications of leases and lease interest paid which, in the statement of cash flows, is related to cash flows from operating activities. The Bank classifies the interest paid as cash flows from operating activities.

The Bank maintains an actively managed capital base to cover risks inherent in the banking business. The adequacy of the Bank's capital is monitored by using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the National Bank of Ukraine. Management believes that the total capital under management is equal to the total regulatory capital.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and maximize the shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and risks associated with its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amounts of dividend payments to shareholders, return the capital to shareholders, or issue capital securities. There were no changes in the objectives, policies, and processes compared to the previous years.

Capital adequacy ratio established by the National Bank of Ukraine

The NBU requires that all banks maintain a capital adequacy ratio at the level of 10% of risk-weighted assets calculated in accordance with Ukrainian Accounting Standards. As at 31 December 2022 and 2021, the Bank complied with the capital adequacy ratio and the amount of regulatory capital.

Regulatory capital consists of the core capital which comprises paid-in registered share capital, share premium, and reserves created in accordance with the Ukrainian legislation, less net book value of intangible assets and losses of current and prior years decreased by the amount of accrued and outstanding income not received for more than 30 days, overdue accrued income, net of the provision for overdue accrued interest. In addition, the core capital is decreased by the amount by which uncovered credit loss exceeds the prior and current year income and the amount of non-core assets. Another component of the regulatory capital is additional capital which includes standard provisions for interbank and customer loans, property, plant and equipment revaluation surplus, current year profit decreased by the amount of accrued and outstanding income not received for more than 30 days, overdue accrued income, net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years decreased by the amount of uncovered credit risk.

As at 31 December 2022 and 2021, the Bank complied with the regulatory requirements to capital.

The NBU performs stress testing on a regular basis by using certain stress test assumptions to check whether banks comply with the regulatory requirements. In the event results of stress testing show that the required capital adequacy could fall below the required level in the future, the NBU may require that banks increase the regulatory capital above the minimum regulatory requirements.

As at 31 December 2022 and 2021, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2022	**2021**
Tier 1 capital		
Share capital	4,780,595	4,780,595
Share premium	101,660	101,660
Statutory reserve	2,909,909	2,909,909
Retained earnings	3,823,803	4,206,973
Total Tier 1 capital	**11,615,967**	**11,999,137**
Tier 2 capital		
Assets revaluation surplus	80,414	562,156
Total Tier 2 capital	**80,414**	**562,156**
Total capital	**11,696,381**	**12,561,293**
Capital adequacy ratio at the reporting date		
Risk weighted assets	60,530,717	67,647,323
Total capital	11,696,381	12,561,293
Capital adequacy ratio (%)	**19.32%**	**18.57%**

33. Events after the reporting period

At the beginning of 2023, the Bank early repaid in full its due to the National Bank of Ukraine.

Section I. Management report

Nature of business

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (hereinafter, the "Bank" or "FUIB") was established on 20 November 1991. The Bank commenced its operations in April 1992. The Bank provides a full range of banking services, including attracting deposits and granting loans, investing in securities, servicing payments in Ukraine and transferring funds abroad, exchanging currencies, issuing and processing transactions with payment cards.

The Bank is a member of the Individual Deposit Guarantee Fund effective from 2 September 1999 (Registration Certificate No. 102 dated 6 November 2012), which operates in accordance with the Law of Ukraine # 2740-III "On Individual Deposit Guarantee Fund". Starting from 13 April 2022, during the martial law period in Ukraine and three months after the termination or abolition of martial law in Ukraine, the Individual Deposit Guarantee Fund reimburses each depositor of the bank in full amount (2020: UAH 200 thousand per person).

As at 31 December 2022 and 2021, the Bank's shareholders were SCM FINANCE (92.3% in the issued capital) and SCM HOLDINGS LIMITED (Cyprus) (7.7% in the issued capital). The ultimate controlling party of the Bank is Mr. R. L. Akhmetov, a citizen of Ukraine.

The Bank's registered address is at: 4 Andriivska Str, Kyiv, Ukraine. As at 31 December 2022, the Bank had five regional centers and 213 outlets in Ukraine (31 December 2021: six regional centers and 242 outlets in Ukraine).

FUIB is a universal bank that has been operating in the Ukrainian financial market for thirty one years and servicing large and medium enterprises, small and medium entities, and private individuals.

FUIB is included into the group of the largest banking institutions of the country according to the classification of the National Bank of Ukraine. The Bank is among TOP-10 Ukrainian banks in terms of key financial performance indicators, such as volume of assets, equity, loan portfolio, amounts from corporate clients, private individuals, and others.

In accordance with the Law of Ukraine "On Banks and Banking" and on the basis of the licenses and written permissions obtained from the National Bank of Ukraine, FUIB is engaged in the following activities:

- Accepting deposits from legal entities and individuals;
- Opening and maintaining current accounts of banks and customers;
- Placing attracted funds on its own behalf and at its own risk;
- Providing guarantees, sureties, and other obligations from/to third parties;
- Providing custody services, renting safe-deposits for valuables and documents;
- Issuing, purchasing, selling, and servicing checks, promissory notes, and other negotiable payment instruments;
- Issuing payment cards and processing card transactions;
- Performing foreign currency operations;
- Carrying out securities purchase and sale transactions on its own behalf and on behalf of clients;
- Issuing its own securities;
- Investing in statutory funds and shares of other legal entities;
- Performing depositary activities and registered securities register keeping.

Many hopes and expectations were placed on the year 2022. The COVID-19 pandemic was on the decline. Albeit slowly, the economy demonstrated signs of post-crisis recovery. Unfortunately, the positive dynamics of recovery was rudely disrupted by Russia's military aggression, which brought a full-scale war, thousands of deaths, torture, the destruction of everything that contained beauty and life, the death of relatives, the destruction of houses, the burning of entire territories. Millions of children and families were forced to leave the country, hundreds of thousands of able-bodied citizens were engaged at the front, tens of thousands of entities stopped operating.

Despite the colossal loss of human lives and the country's production potential, the enemy's attacks on the state system and government institutions, the country's economy continues to function as an integrated system, and the Government retains full power and all opportunities for making and implementing political decisions. Decisive actions of the state authorities of Ukraine at the initial stage of the war made it possible to consolidate strong international support for Ukraine, both in obtaining weapons and in financial aid. In 2022, thanks to the heroic deeds of the Armed Forces of Ukraine, Ukraine succeeded to liberate 40% of the territories captured after February 24 and 28% of all the territories occupied by Russia.

During 2022, Ukraine has received USD 26 billion of international aid. However, the problematic issues are the predictability and the rate at which international aid is received. At the end of the year, an agreement was reached with the IMF at the staff level regarding the conduct of a 4-month monitoring mission, a successful completion of which will provide Ukraine with an access to the IMF's extended EFF credit support program effective from March 2023. Coordinating the parameters of further cooperation with the IMF and systemizing the cooperation with international partners are the keys to Ukraine's fiscal stability.

Ukraine's economy is gradually recovering from the war shock. The decline in production has been stopped, new technological processes are being established, and the real sector is being converted. However, at the end of the year, the pace of economic recovery began to slow down again in connection with the barbaric attacks of the Russian army on the civil infrastructure of Ukraine, which shortened the business day and increased the cost price. According to the latest IMF estimates, real GDP in 2022 has decreased by 35%.

The year of the war turned out to be a kind of natural experiment, a natural stress test for the banking system of Ukraine. Despite the significant systemic geopolitical, demographic, and macroeconomic shocks, the banking market has survived thanks to the reduced internal vulnerability to risks as a result of eight years of reforms and timely anti-crisis measures in the course of the military activities. In general, the banking system steadily responded not only to the first military challenges, maintaining the controllability and continuity of payments, but also held its own over a longer distance. Banks managed to maintain the flow of public funds into accounts and adapt operating processes to autumn-winter missile strikes and blackouts.

In 2022, solvent banks received UAH 24.7 billion in net profits against UAH 77.4 billion in 2021. The sector's return on equity was 10.9% compared to 35.1% a year ago. The main factor in the decrease in profitability was a significant increase in deductions to allowances for incurred and expected losses as a result of the war. Thus, the deductions to allowances for loans for the year amounted to UAH 107.1 billion, another UAH 11.7 billion was created for other assets and risks. Net interest income increased by 29% compared to the previous year. Interest income increased largely due to the significant inflow of liquidity into the banking sector and its placement in assets with a higher yield than in 2021. After a sharp decline in the first months of the full-scale war, commission income resumed growth thanks to a steady demand for banking services and a gradual recovery in rates. During the second half of the year, net commission income almost recovered to the 2021 levels, but, at the end of the year, it decreased by 14% year-on-year. Operating expense accounted for about half of total net interest and net commission income. Net operating profit, before deductions to allowances, increased by 75% over the year. In particular, according to the results of Quarter IV, this indicator amounted to UAH 41.9 billion compared to UAH 25 billion in Quarter IV of 2021. Operating efficiency provides banks with the first line of defense for absorbing credit losses. The National Bank of Ukraine expects that financial institutions with viable business models capable of generating operating income will successfully cope with covering losses from risks and restoring capital. As at 1 January 2023, out of 67 solvent banks, 46 were profitable and received net profits in the amount of UAH 45.6 billion, which covered the losses of 21 banks in the total amount of UAH 20.8 billion. The sector profits are concentrated: the five most profitable banks generated 89% of all profits.

During the war, only six banks left the market, three of which belonged to Russian shareholders: state-owned IR Bank (Sbierbank), Prominvestbank, private Bank Forward, as well as three domestic banks: Megabank, Bank Sich, and Ibox Bank. Those are quite modest figures for the war.

The fundamental reason for the growth of bank assets by 17.9% to UAH 2.7 trillion was the forced emission of UAH by the NBU, especially at the first stages of the war, to ensure coverage of new budget needs for military and social expenditures. Surplus funds mostly remained within the accounting perimeter of the banking system, and this is a positive moment.

Net loans declined. Given a weak solvent demand for new loans and a growth in non-performing loans (NPL) to 38.1%. Businesses and people are currently not ready to pay high interest rates and take on additional obligations in the wartime conditions. Credit freeze is somewhat softened by the growth in lending to the agricultural sector, in particular, through the mechanism of the budget support program "Affordable Loans 5-7-9%". The volume of soft loans has already reached a third of all balances under corporate loans of banks in the national currency.

The amount of people's funds in banks increased by +31.2%, however, they are mainly accumulated on current accounts due to the concentration of temporarily unused payments to military personnel, state employees, and displaced persons in system banks.

Maintaining profitability at relatively good levels is, strangely enough, in the wartime conditions, also a signal of stability. At the first glance, the system-wide return on capital (ROE) at the level of 10.9% looks positive, however, looking into the details, you can see that the source of income for many banks was interest income from investments in DGLBs and certificates of deposit issued by the NBU.

A general overview of the dynamics of the banking sector does not give grounds for significant pessimism. The National Bank of Ukraine and banks managed to avoid a possible catastrophe in extremely difficult conditions of the external environment. We may be confident in saying that the cases of reforming the banking system of Ukraine during the period from 2014 to 2021 and the complex of anti-crisis measures of financial stabilization in 2022-2023 will be included in the textbooks of the world's leading universities and will be carefully studied by central bankers and international financial organizations.

At the same time, shocks of this scale cannot pass without a trace for the banking sector: a number of imbalances in the term structure of liabilities have clearly increased, disparities between different types of interest rates, far from all non-performing assets are fully provided for, the problem of financial inclusion has intensified, the so-called "inflation canopy" has formed from the side of liquidity surplus, as well as differences deepened between the reliability indicators of certain banks due to the heterogeneity of business models.

Management bodies and corporate governance

During 2022, the Supervisory Board of the Bank performed its duties directed to protect the rights of depositors, other creditors, and the Bank's shareholders and, within its authority limits defined by the Bank's Charter and the Ukrainian legislation, directed and controlled the activities of the Bank's Management Board. The Supervisory Board of the Bank participated in all important and strategic decisions according to its authority limits and after conducting a deep analysis of the events and the situation in the banking sector.

In 2022, the Management Board of the Bank provided information to the Supervisory Board on a regular basis and reported in a timely manner and comprehensively on: the strategy and business plan implementation, the Bank's performance, changes in regulatory requirements, execution of risk management policies and strategies, functioning of the internal control system, etc. Thus, the Supervisory Board of the Bank continuously performed oversight and advisory functions after in-depth analysis and taking into account all relevant facts.

The Supervisory Board of the Bank, in its activities, is governed by the laws of Ukraine "On Banks and Banking", "On Joint Stock Companies", other laws and regulations of Ukraine, regulations of the National Bank of Ukraine, the Charter of the Bank, decisions of the General Shareholders' Meetings, as well as the Bank's Regulation "On the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"".

Members of the Supervisory Board as at the end of 2022 were as follows:

Members of the Supervisory Board

Popov, Oleh Mykolaiovych	Chairperson of the Supervisory Board;
Duhadko, Hanna Oleksandrivna	Member of the Supervisory Board;
Povazhna, Marharyta Viktorivna	Member of the Supervisory Board;
Katanov, Georgi Bogomilov	Member of the Supervisory Board;
Kurilko, Serhii Yevhenovych	Member of the Supervisory Board;
Stalker, Catherine Elizabeth Ann	Member of the Supervisory Board – Independent Director;
Grasmanis, Ansis	Member of the Supervisory Board – Independent Director;
Mikhov, Valentyn Liubomirov	Member of the Supervisory Board – Independent Director

With the beginning of the armed aggression of the Russian Federation against Ukraine, the work of the Supervisory Board was directed to the prevention and/or elimination of the phenomena unfavorable to the effective operation of the Bank. Thus, by Resolution of the Supervisory Board dated 24 February 2022, in accordance with the Anti-Crisis Plan of Measures to Restore the Financial Stability of JSC "FUIB" in the Event of Unforeseen Circumstances Regarding Management of Continuous Activities as approved by the Supervisory Board of JSC "FUIB" No. 374 dated 16 September 2021, the Anti-Crisis Management for Restoration of Activities was implemented in the Bank headed by Committee for Crisis Management and Restoration of Financial Stability of JSC "FUIB". Also, at quarterly meetings, reports on anti-crisis management, management reports on the current situation in the Bank relating to the imposition of the martial law in Ukraine, in particular, on the state of loan portfolios, created allowances, losses incurred as a result of the destruction and damage of the Bank's properties, were considered on an ongoing basis. In order to support business, issues related to the introduction of forgiveness programs and debt restructuring of the Bank's customers were considered. A special attention was paid to the assessment of capital adequacy, taking into account the risks of the war, ensuring the uninterrupted operation of the Bank's critical IT infrastructure and cyber security. The Bank's risk appetite indicators, in particular, credit, operating, and market risks, liquidity risks were under constant control.

Members of the Management Board as at the end of 2022 were as follows:

Members of the Management Board

Chernenko, Serhii Pavlovych	Chairperson of the Management Board;
Rubaj, Sebastian	Deputy Chairperson of the Management Board;
Kosenko, Nataliia Feliksivna	Deputy Chairperson of the Management Board;
Shkoliarenko, Kostiantyn Oleksandrovych	Deputy Chairperson of the Management Board – Chief Financial Officer (CFO);
Zahorodnykov, Artur Hermanovych	Deputy Chairperson of the Management Board;
Kostiuchenko, Tetiana Vasylivna	Deputy Chairperson of the Management Board;
Yeremenko, Fedot Yevheniiovych	Deputy Chairperson of the Management Board – Chief Risk Officer (CRO);
Skalozub, Leonid Pavlovych	Deputy Chairperson of the Management Board;
Mahdych, Serhii Borysovych	Deputy Chairperson of the Management Board;
Horbenko, Hanna Valeriivna	Member of the Management Board, Director of Financial Monitoring Department.

Within its corporate governance, the Bank is governed by the Corporate Governance Code of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" as adopted by the Extraordinary General Shareholders' Meeting on 27 November 2018. The Code is publicly available at https://about.pumb.ua/management.

Key corporate governance principles governing the Bank's activities are as follows:

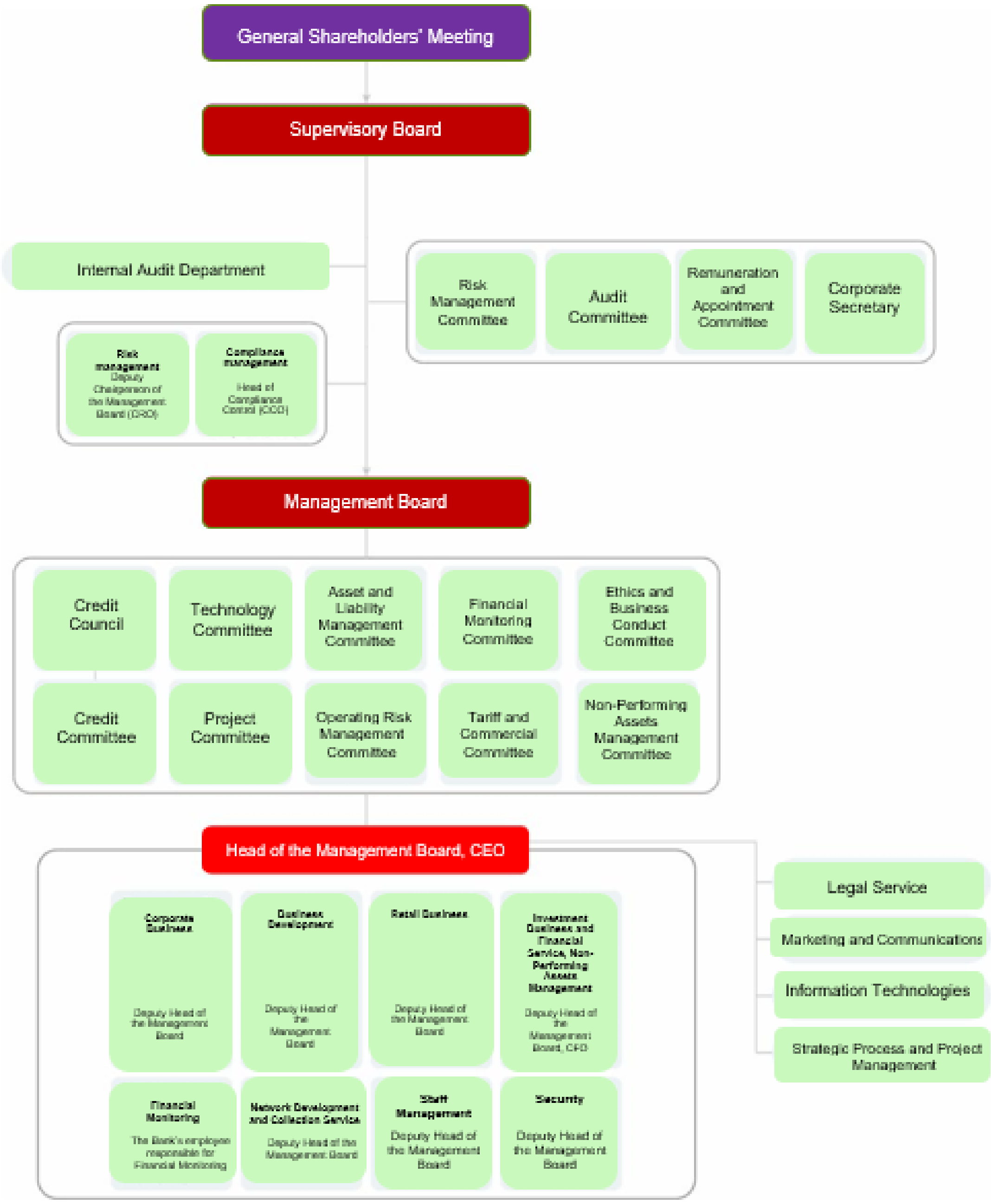
- Honesty, integrity, and respect in relations with owners (shareholders) and investors, as well as constant readiness to ensure adequate protection of their interests and maximize their wealth;
- Avoidance of unreasonably complex and excessively costly procedures to exercise the rights of the Bank's shareholders, while complying with the Ukrainian legislation and the Charter of the Bank;
- Equal treatment of all shareholders, including open communications with minority ones;
- Determining strategic objectives of the Bank and monitoring their implementation;
- Implementing high-quality and effective management system in the Bank;
- Accountability of the Management Board to the General Shareholders' Meeting and to the Supervisory Board of the Bank, which controls the activities of the Management Board;
- Setting standards, rules, and practices of corporate behavior for all employees of the Bank and the procedures of informing on misconduct, including fraud or corruption, according to the Bank's Code of Conduct that reflects key principles and standards of the Bank;
- Effective management of compliance and other risks which the Bank faces, including conflict of interests in order to protect the interests of its depositors, clients, counterparties, owners (shareholders), and employees in accordance with the Bank's internal procedures implemented;
- Transparency of the Bank's activities which is ensured by timely disclosure of accurate, objective, and relevant information on the activities undertaken;
- Responsibility which relates to the Bank's recognizing the rights of all interested parties assigned by the current legislation of Ukraine and the Bank's focus on the mutually beneficial cooperation with those parties to ensure financial stability and development of the Bank.

The Bank has a defined and functional transparent corporate governance structure in place that provides for:

- General management at the highest level by the General Shareholders' Meeting of the Bank;
- Regulation and control by the Supervisory Board of the Bank, with the delegation of some of its powers to the Supervisory Board's committees or working groups established in accordance with the effective legislation, the Charter of the Bank, and other internal documents and decisions of the Supervisory Board, which act on the basis of the regulation approved by the Supervisory Board;
- Managing operating activities by the Management Board, with the delegation of some of its powers to the Management Board's committees established in accordance with the effective legislation, the Charter of the Bank, and other internal documents and decisions of the Management Board, which act on the basis of the regulation approved by the Management Board;
- Segregation of duties among all units of the Bank using the model of three lines of defense to create the Bank's risk management system, which should provide for ongoing risk analysis to make timely and adequate management decisions in order to mitigate risks and reduce the associated losses.

The Bank's shareholders, the General Shareholders' Meeting, the Supervisory Board, the Management Board are subjects of the corporate governance structure, together with the Corporate Secretary as the person responsible for the Bank's interaction with shareholders and fulfilling other functions in the field of corporate governance.

The existing corporate governance model provides for a high level of organization, which is supported by the Bank's impeccable reputation in the market. At the core of FUIB activities are effective functions of control and risk management, as well as timely response to legislative changes:



Management's objectives and strategies for achieving them

FUIB strives to remain one of the leading players in the Ukrainian banking market, above all in service quality, innovations and technology, while providing the best in industry economic effect for shareholders in terms of business value appreciation and return on invested capital.

FUIB is a universal bank of national scale that offers leading financial products and services to both legal entities and individuals.

FUIB conducts a transparent business and values its reputation.

FUIB's main principle is maximum client orientation and in-depth understanding of their needs, as well as building a business structure in accordance with the best international standards.

In accordance with the Development Strategy, the Bank is going to take measures on improving the business management system and increasing the efficiency of business processes. An important component of internal changes will be the upgrading of the Bank's staff skills. The implementation of the Bank's internal improvement projects aims at supporting the development of commercial activities, reducing operating costs, and provide for tight control over varied risks.

The Bank's main objective is to achieve a position of modern, universal, and competitive bank in Ukraine, a leader in rendering banking services that would satisfy the needs of customers in state-of-the-art banking and financial instruments.

To increase profits and intensify the efficiency of its business activities, the Bank is going to further support and develop retail and small businesses, increase its customer base by building lasting trust-based relations with customers, expand the Bank's network, reengineer processes, automate, increase stability, and optimize business processes.

The main directions of development within the Development Strategy are as follows:

- Focus on building an efficient and sustainable banking model;
- Concentrate on two main customer segments: corporate and retail;
- Diversify the resource base by sources and loan portfolio by major borrowers and industries;
- Ensure high liquidity ratios;
- Ensure risk control and maintain the level of provision costs at planned levels with the help of rigorous borrowers' selection;
- Implement the best banking services standards.

FUIB is an innovative bank ready to outperform the market by using technologies. The Bank introduces new products and processes in customer service, by using both traditional and alternative channels for providing financial products and services. At the same time, FUIB improves quality of the services and develops individual solutions for customers, which will increase the market share in each of the product and customer segments. Such development is aimed at achieving the business objectives set out by the Development Strategy and supporting changes to the management model that require the introduction of new modern mechanisms and a qualitatively different level of management information.

Expenditures for development in 2022 are aimed at implementing the Bank's approved Development Strategy in the Ukrainian banking market.

The main criteria for the Bank's success are to fulfill the planned targets: by the number of customers actively engaged in operations with the Bank, customers' satisfaction with banking services, the share of non-performing loan portfolio, return on equity, and net profits.

The Bank regularly carries out operating monitoring of the objectives implementation and introduces the best banking practice standards to put them into action.

Resources and risks

Resources

The Bank's customers are represented by a significant number of individuals and entities from various industries. Payment cards business plays an important role in expanding the customer base.

The Bank is a principal member of the international payment systems of Visa and MasterCard and operates its own processing center, which serves a large number of cards from other domestic banks. The presence of a widely-developed network of own ATMs and the Bank's affiliation with the financial and industrial group contribute to attracting a large number of enterprises for servicing payroll projects.

The resource base of FUIB is diversified by sources of attraction (clients' funds, funds attracted in international markets, funds from domestic banks, etc.) and by major counterparties, client deposit portfolio – by major depositors, and funds of legal entities – by types of economic activities. This diversification mitigates the sensitivity to liquidity risk.

In 2022, despite the war, total customer accounts increased by 11.7%, accounts of individuals increased by 8.1%, and amounts of corporate clients increased by 14.4%. As a result, the share of corporate accounts in total amounts due to the Bank's customers increased from 56.4% to 57.8%, while the share of retail accounts decreased from 43.6% to 42.2%.

FUIB is a universal bank. The main share of loan portfolio belongs to corporate customers. The share of retail business is about one fourth from the total customer loan portfolio. Short-term loans prevail in the loan portfolio by the terms of using borrowed funds, and loans to finance current activities by the target apportionment. Diversification of corporate loan portfolio of the Bank by types of economic activities is acceptable.

Taking into account the currency structure of customer accounts and attraction of funds in international markets, about a quarter of the clients' loan portfolio included foreign currency denominated loans granted in freely convertible currencies. In terms of the borrowers with foreign currency denominated loans, the vast majority is among the largest business entity borrowers. The absence of foreign currency inflows from certain borrowers increases the Bank's sensitivity to currency and credit risks. Loans from Top-20 largest borrowers constitute 16% of the total loan portfolio, before allowance for expected credit losses (31 December 2021: 14%). Currently, the customer loan portfolio is diversified by major borrowers. The concentration of loans in relation to Tier 1 capital, which varies depending on the change in the volume and structure of regulatory capital, was due to the devaluation of the national currency in 2014 and 2022, taking into account the currency structure of loans to the largest borrowers.

The war has had a strong impact on the quality of the customer loan portfolio, but key indicators remain within the controllable range. The quality of the customer loan portfolio is satisfactory. As at 31 December 2022, the weight of Class 10 due from legal entities and Class 5 due from individuals (classes calculated in accordance with Resolution No. 351 of the National Bank of Ukraine) was 25.0%.

For the purpose of mitigating the sensitivity to credit risk, a significant amount of funds was directed to create allowances for active operations. The allowances created covered the loan portfolio by 26.1% (31 December 2021: 9.1%). Such a significant increase in the provisioning rate is directly related to the full-scale military invasion of Russia.

A significant amount of funds on current customer accounts increases the Bank's sensitivity to liquidity risk. Diversification of the resource base by major lenders reduces the Bank's sensitivity to liquidity risk. The quality of the resource base is satisfactory.

The operating efficiency ratio during the reporting period was high. The Bank generates a stable positive cash flow both on interest-bearing assets and on commissions and trading activities. In connection with the war, based on the 2022 performance, the Bank received UAH 398 million of net losses (UAH 4,187 million of profits based on the 2021 performance).

Quality of FUIB's equity was satisfactory, and FUIB's capital adequacy ratio was acceptable. According to the asset quality analysis conducted by the National Bank of Ukraine, there was no capital shortage as at 1 January 2020. As at 31 December 2022, the Bank's capital adequacy exceeded the statutory ratio prescribed by the NBU (FUIB capital adequacy ratio of H2 = 19.7%, with statutory of at least 10%, and average by the Ukrainian banking system – 19.68%).

Taking into account the structure of the Bank's liabilities by maturity, the amount and share of highly liquid assets was significant.

About 60% of highly liquid assets were represented by investments in DGLBs and saving (deposit) certificates issued by the National Bank of Ukraine (31 December 2021: 68%). The funds on the correspondent account with the NBU were maintained to the extent necessary for servicing customers' operations and fulfillment of the Bank's obligations. The majority of term deposits on interbank accounts were placed with non-resident investment class banks.

FUIB's liquidity indicators were acceptable. As at the end of 2022, the Bank's liquidity ratios were above the required levels set by the National Bank of Ukraine:

- Liquidity Coverage Ratio (LCR) for all currencies – 249%, with the minimum required by the NBU – 100%;
- Liquidity Coverage Ratio (LCR) in foreign currencies – 328%, with the minimum required by the NBU – 100%;
- Net Stable Funding Ratio (NSFR) – 149%, with the minimum required of:
  - Not less than 80% – effective from 1 April 2021 року;
  - Not less than 90% – effective from 1 October 2021;
  - Not less than 100% – effective from 1 April 2022.

In 2023, the Bank plans to finance its activities, the adequacy of working capital and liquidity by:

- Attracting funds from corporate customers;
- Attracting funds from retail customers.

The Bank invests funds or acquires certain assets under the FUIB Growth Strategy. Financing is performed through internal procedures with the funds received from operating activities or profit reinvestment.

Total investments of the Bank in its own property, plant, and equipment and intangible assets, other than goodwill, in 2022 amounted to UAH 1,136 million, and plan by the end of 2023 is UAH 510 million.

As at 31 December 2022, the Bank had capital expenditure commitments stipulated in the contracts for equipment purchases in the amount of UAH 4,353 thousand. The Bank's management had already allocated the necessary resources to fulfill the obligations. The Bank's management believes that future net income and financing will be sufficient to meet those and other similar obligations.

Plans for expanding or improving property, plant, and equipment and the reasons for their implementation are also carried out in accordance with the FUIB Growth Strategy and are financed through internal sources. Investment plans presuppose expanding the network of outlets, ATMs, POS-terminals, investments in IT – in order to implement the effective changes in business processes.

FUIB adheres to high standards in ensuring decent and safe working conditions for employees and development of their professional skills. FUIB carries out its activities by observing the principles of conscientious working practices and respecting human rights.

The Bank's employees include economists and financiers, people of intellectual and creative professions, people who work in offices, branches, and sales outlets. Employees are the Bank's main asset and the key to sustainable development of the financial institution.

The Bank has a Collective Agreement in place which guarantees the protection of rights and interests of each FUIB’s employee. Everyone has equal rights and opportunities regardless of gender, race, age, place of residence, religion, and political beliefs.

In 2022, FUIB traditionally invested in the improvement of workplace safety, preservation of employees' life and health. The Bank conducted laboratory studies of workplaces in terms of the presence of harmful factors, preliminary and periodic medical examinations of employees, financed the inspections of buildings to identify potential dangers in the facilities, conducted examinations of newly opened branches’ compliance with fire safety rules, the pre-trip medical examinations of motor vehicle drivers, and many other things.

Development of employees is one of the main strategic directions. The Bank trains its employees remotely at trainings, seminars, master classes, and workshops. By raising the level of knowledge and skills, our colleagues will be able to implement more complicated projects and tasks, thereby strengthening their competencies and developing the Bank.

For beginners, the Bank offers trainings, which allows them quickly to adapt and fulfill their new responsibilities easily. For professionals, in order to discover their potential, it is possible, with the help of their mentors, to select training programs and inspiring projects.

For the fans of new technologies, the Bank implements the IT Drive project. Employees of Information Technology Department initiate and implement the ideas aimed at improving the internal processes and experience of customers in using the Bank’s products.

Managers of the Bank are trained in the School of Management, from mastering their basic skills of managers to managing changes and projects.

The employees who have anything to share with others can be trained in the Institute of Internal Coaching. They may develop and conduct trainings for their colleagues.

The Bank has the Code of Conduct in place that reflects the basic principles of corporate conduct and ethical standards for employees of FUIB. The Code of Conduct is based on the principles of honesty and integrity and defines minimum requirements for the behavior of the Bank’s employee. The Code of Conduct of FUIB is intended to help each employee to get an idea of the ideology and system of values of the Bank, its corporate culture, established ethical norms for employees’ behavior, the manner of communication with colleagues, clients, and partners, how to resolve complex ethical situations, to prevent situations of conflicts of interests arising during the work process. The Bank expects that all employees and representatives of the Bank be governed by the highest standards of personal and professional integrity in all aspects of their activities and comply with all relevant laws, rules, practices, and principles of the Bank. Under no circumstances should employees jeopardize the reputation of the Bank, as well as the principles of integrity, even if it may grant the Bank with potential benefits. When commencing the work at FUIB, each employee is responsible for their behavior, including compliance with the laws, this Code of Conduct, corporate principles, and internal documents of the Bank.

When implementing innovative technologies into business processes and customer services, FUIB supports ‘green’ standards and makes its contribution to the preservation of the environment.

Not only are self-service online systems convenient for customers and profitable for business, but they are also beneficial to the environment. Thus, Internet banking FUIB Online 2.0 offers savings in terms of customer’s time and money and, instead of visiting standard offices, it offers a wide range of online services without leaving home. This, in turn, reduces the load on the Bank. Overall, this is a significant economy of natural resources and energy that would be required for the organization and operation of outlets.

Every day, FUIB employees make efforts to preserve the environment: apply principles of the Green Office: save energy resources, save paper, optimally use the equipment and procedures for electronic document management, collect waste paper, and participate in other environmental initiatives.

FUIB in the conditions of the war

The day of 24 February 2022 divided the life of every Ukrainian into before and after. FUIB immediately changed its strategy to daily risk discussion and rapid decision-making to support people and systems. Most of the employees found themselves in the war zone on the very first day. Due to forced migration to safe regions, not everyone could work. However, the team supported each other: those who were in relative safety worked and helped their colleagues move to Western Ukraine. The Bank paid everyone’s salary. Today, the priorities of FUIB’s activities are the preservation of business, customers, and the team, as well as assistance to Ukrainian defenders.

Team support. Since the beginning of the war, the Bank has invested more than UAH 147 million in employee support. Some of the colleagues work in dangerous regions and receive a salary supplement. The Bank provides financial assistance in case of loss or damage to housing, injury of employees, and death of their family members as a result of the hostilities, in case of withdrawal of families from the occupied territories. Mobilized colleagues continue to receive full salary. 140 employees from the outlets in temporarily occupied territories, from the zones of active hostilities are employed in other outlets of the Bank. During the war, more than 100 employees were retrained and work in other units of the Bank.

The Bank created a Fund of Support to help mobilized employees of the FUIB – collect funds by employees for the needs of our defenders. Together, we provided assistance to our mobilized employees. The initiative group of the Bank created the Coordination Center for the resettlement of employees in Western Ukraine and the provision of necessary assistance. The Center's team supported all willing employees by phone, in telegrams, in chatbot, and in the volunteer community. Volunteer employees from different regions together processed more than 1,450 requests. The assistance was provided to Ukrainian families in difficult situations, military personnel, and hospitals.

Our cash collectors, security experts, and outlet employees are real heroes. They have developed new logistics routes to deliver cash and valuables. Our armored personnel carriers went out, together with the employees, on duty at Territorial Defense lines. Cashiers, during the bombings in Kharkiv, Mykolaiv, Mariupol, and other cities, collected cassettes with money and repeatedly helped in the evacuation of people from the war zone, because they know the safe ways.

In connection with the full-scale military aggression of Russia, part of the banking infrastructure was destroyed – they were in the war zone or found themselves in the occupation. The Bank was forced to close those outlets. There were problems with transporting cash to hotspots and replenishing ATMs. However, FUIB never lost operational continuity during the year of the war. Payments are processed, as usual, in the 24/7 mode. Since the beginning of the war, 30 outlets and 139 ATMs have been lost or damaged. But, as soon as the region becomes safe for the Bank's customers and employees, FUIB immediately resumes the work of its outlets. So, almost immediately after the de-occupation, the Bank opened the doors of outlets in Chernihiv and Irpin. We have set up additional outlets – our invincibility points, where you can get the entire list of services, as well as recharge your phones, connect to WiFi, and warm up.

Despite all the challenges, the FUIB team is going through the most difficult period with dignity. Our people have moved to safe regions. We have maintained and supported our services at a high level. Demonstrated resistance to enemy cyberattacks.

At the beginning of the full-scale war, in order to support its customers, FUIB introduced credit holidays and reduced commissions for using its services. We tried to switch to remote channels for work, service, and communication as much as possible. Our remote channels work continuously.

Despite the war, the conditions for using FUIB's debit cards, in particular, "vseKARTA", remained unchanged: free card opening and maintenance and transfers to cards of any Ukrainian banks in UAH via FUIB Online and payment of utilities and replenishing mobile operator numbers in the application – without any commission.

Customers of the Bank do not need to put themselves in danger, stand in lines, or look for the nearest Bank's outlet – FUIB took care and automatically extended the validity of all FUIB cards until the end of March 2023.

FUIB continues to fulfill all its obligations. Including as an agent bank of the Individual Deposit Guarantee Fund. Thus, during the 12 months of 2022, FUIB successfully paid out funds to depositors of other bankrupt banks. As a result of a balanced policy, clients trust the bank.

The Bank continues to grant loans to businesses. Since the beginning of the war, FUIB has financed agricultural producers in the amount of UAH 5 billion. Loan support from the Bank helped Ukrainian agricultural enterprises to conduct field work on schedule. The total volume of FUIB's disbursements in all corporate areas within the framework of the state business support program "Affordable Loans 5-7-9" since the beginning of the full-scale invasion amounted to UAH 8 billion. We can confidently call ourselves the most active commercial bank in terms of financing during the martial law period, which continued to lend to businesses at preferential interest rates.

FUIB's priorities include the safety of people, funds, valuables, and data. At the beginning of the invasion, several powerful DDOS attacks were directed at the Bank, which we withstood without stopping our services. FUIB paid special attention to fraudulent schemes related to social engineering, fundraising for defenders, and renting housing to displaced persons. During the year of the war, we saved 7.5 thousand customers of FUIB thanks to the constant improvement of anti-fraud monitoring. In addition, the Bank checked all its suppliers and refused to cooperate with the counterparties connected to Russia or Belarus.

Despite losses due to losses, FUIB still pays all taxes on time. Since 24 February, the Bank has transferred more than UAH 1.5 billion to the state budget. Of those, in April and March, the Bank paid UAH 299 million in advance to support the Ukrainian economy, so that the state could resolve urgent issues.

The Bank is trusted by more than 101,000 corporate customers and 1.7 million individual customers. Since the beginning of 2022, another 370,000 Ukrainians and more than 18,000 business clients have become customers of FUIB.

Assistance to Ukrainian defenders. FUIB supports Ukrainian defenders (both men and women). FUIB has already directed more than UAH 81 million to support the Armed Forces of Ukraine, the Territorial Defense Service, the State Emergency Service, the National Police, the National Guard, the Main Intelligence Directorate, and the Security Service of Ukraine. The funds transferred were used for the purchase of bulletproof vests and helmets, radio stations and thermal imagers, tactical backpacks, clothes and shoes, copters and cars, medicines and fuel. We processed more than 110 applications from various military units and special forces. 40% of our armored vehicles protect the country and deliver humanitarian aid. 126 employees of FUIB defend the independence of Ukraine. 45 of our cash collection armored vehicles handed over to the Armed Forces of Ukraine evacuated severely wounded soldiers from the front line, delivered ammunition to the front line, participated in the interception of saboteurs, and delivered food to the residents of the cities in the hottest spots. Armored vehicles saved more than a dozen lives. Today, our Armed Forces also have an urgent need for high-precision weapons. That is why FUIB joined the nationwide collection for kamikaze drones and armored vehicles held by the Serhii Prytula Foundation and donated UAH 2 million. Among the partners of FUIB in supporting the Armed Forces of Ukraine are well-known charitable foundations, such as the KSE Foundation and Serhii Prytula, as well as small volunteer organizations, and, together, we are doing one big important thing.

The constant need of Ukrainian soldiers is hemostatic means of tactical medicine and blood components in hot spots. Therefore, FUIB initiated the social project “We Are of One Blood” to support Ukrainian small business and art, promote donor initiatives and help the wounded. This is a large-scale partnership project of the Bank, the logistics company Nova Poshta, six Ukrainian manufacturers, and four illustrators, and two public organizations. FUIB transfers half of the cost of each order of patriotic merch which is created by Ukrainian manufacturers, to DonorUA and Blood Agents charitable funds. The collected funds are directed to meeting the needs of donor blood, delivery of blood components to hot spots, and purchases of tactical medicine for Ukrainian soldiers. During the seven months, the “We Are of One Blood” initiative collected UAH 2.8 million. The funds were used for the purchase of 350 hemostatic tourniquets, 253 occlusive stickers, 240 hemostatic bandages, 275 compression bandages, 20 intraosseous NIO accesses, two ULV-200b low-temperature freezers for blood plasma storage in Kherson and 34 deliveries of blood components to hot spots, and each such delivery are thousands of saved lives. More than 600 Ukrainians have become donors, and this is a hope for recovery for more than 1,800 people. 5,600 Ukrainians took part in the project, more than 10 million people learned about the Bank’s project. Ukrainian business and art were supported in the amount of UAH 6 million.

In October, FUIB team met with their business customers at the Sustainability Evening, where they reported on their financial status, achievements, new products and services, plans and goals for the future. During the event, a charity auction was held, where 12 rare lots, symbols of the struggle and invincibility of Ukraine, were presented. UAH 1.4 million of collected funds were distributed among the “We Will Win” fund and public organizations “Agents of Blood” and DonorUA. The “We Will Win” fund directed the received funds to equip mobile pickup stations for radio-electronic warfare against air forces (missiles, drones). Donor.UA made eight blood deliveries to hot spots. “Agents of Blood” bought 215 sets of tactical medicine: blood-stopping bandages and Israeli bandages for defenders.

In November, FUIB held a traditional Donor Day as part of the social project “We Are of One Blood”. 50 employees donated 22 liters of blood for the wounded. 150 defenders got a chance for life.

Our customers also constantly help FUIB to bring us closer to victory. Since the beginning of the war, FUIB has organized a possibility of quick transfer of any amount without any commission to support our army through all bank channels.

FUIB, together with customers, friends, and partners, raised UAH 6 million for surgical equipment for the front-line operating rooms. Emergency medical care will be provided in one of the hospitals close to the combat zone of the front section of the South operational command.

As a primary dealer, our Bank has launched a service for the sale of military government bonds, the issue of which was initiated by the Ministry of Finance of Ukraine to support the budget of Ukraine through investments.

FUIB conducted training of the first pre-medical aid teams of the outlet network. In one month, 22 training groups (357 outlet employees) completed the training program in 10 cities of Ukraine: Zaporizhzhia, Dnipro, Kyiv, Mykolaiv, Odesa, Kharkiv, Kryvyi Rih, Kremenchuk, Lviv, Rivne. As part of the course, the professional instructors of the control and rescue service “Pivnich” taught our colleagues the theory and helped practice skills according to the NATO protocol – M.A.R.C.H.

The work of the Psychological Support Service for employees was resumed.

In December, FUIB joined the initiative of the First Lady of Ukraine Olena Zelenska “Self-Help Plus” – a group stress management course for adults who suffered from extremely adverse circumstances developed by the WHO. The self-regulation skills that employees receive in this course will help them use self-help approaches to overcome stress.

The knowledge sharing program “Knowledge Sharing” has been extended. FUIB employees are involved as speakers who share useful information, skills in working with programs and applications. To date, 19 webinars have been held with a total of 5,290 participants, on such relevant topics as: life with LEAN in the conditions of the war; artificial intelligence and Data Science; security of corporate devices in the face of modern threats; cyber hygiene and cyber warfare, etc.

In November and December, FUIB, together with DGM, Israel, also implemented the Leaders Development Sessions program, in the framework of which the Bank's managers could listen to experts from various business segments from Israel and learn how Israel overcame similar difficulties during the war.

Anti-corruption program

Compliance Control Division of FUIB performs monitoring of the compliance with the principles of conscientiousness when providing services to customers, bank secrecy, protection of the database, compliance of offered products with customers' orders. Compliance Control Division also monitors the reliability, completeness, objectivity, and timeliness of the information provided by the Bank in accordance with the laws and regulations to public authorities, partners, clients, and the public.

The Bank provides the society with truthful and accurate information about its processes, products, and services. FUIB constantly improves business transparency. The Bank timely discloses the complete and reliable information, including information about its financial position and economic indicators. Thus, shareholders and investors can make informed decisions, and customers have the necessary information about their financial partner.

The Bank implements the Procedure for Declaring External Activities of Personnel according to which employees should necessarily notify the Bank about their external activities. This information is analyzed, and it is determined whether or not there is a conflict of interest between the employee, the Bank, its customers, and counterparties. Furthermore, the Bank implements the Procedure for Granting and Receiving Gifts and Invitations.

In its activities, the Bank implements Anti-Monopoly Compliance Policy, the main purpose of which is to prevent violations in the field of competition law on the part of responsible units of the Bank.

In 2016, FUIB adopted the Anti-Corruption Program of JSC "FUIB" and updated it in 2019. The Program establishes a set of rules, standards, and procedures for identifying, counteracting, and preventing corruption and is applied in all areas of the Bank's activities.

A transparent system of corporate management has been implemented in FUIB. In 2022, there were no incidents of prosecution of employees related to corruption issues.

Ethics and Business Conduct Committee comprising top managers of the Bank has been created and operates in the Bank. The Committee ensures the implementation in FUIB of uniform standards and principles of SCM businesses in the field of corporate ethics and business conduct.

Risks

Risk is inherent to banking and is managed through the process of ongoing identification, measurement, and control of risks, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each employee within the Bank is accountable for the risk exposures relating to his or her duties. The Bank is exposed to credit risk, liquidity risk, and market risk, the latter being subdivided into trading and non-trading risks. The Bank is also exposed to operating, including information and legal risks, as well as compliance risks.

The independent risk control process does not include business risks, such as changes in the operating environment, technology, and industry. Those risks are monitored by the Bank's strategic planning process.

The risk management policies, monitoring, and control are conducted by a number of specialized bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairperson of the Management Board on Risks (Chief Risk Officer/CRO) and reporting to the Supervisory Board, the Management Board of the Bank, the Credit Council of the Bank, the Assets and Liabilities Management Committee, and the Operating Risk Management Committee of the Bank.

The Bank's risks are measured using methods which reflect both the expected losses likely to arise in the normal circumstances and unexpected losses which are an estimate of the ultimate actual losses based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs the worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or a group of borrowers. Such risks are monitored on a consistent basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing those lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activities and under stress circumstances. To limit this risk, management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles, and monitors future cash flows and liquidity on a daily basis.

The Bank, with the view to ensuring proper discharge of both its own and customers' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called 'liquidity cushion'. To assess the adequacy of the secondary liquidity cushion, the Bank uses the methodology of calculating the minimum required level of secondary liquidity for three stress outflow scenarios: light, medium, and heavy. The scenarios are based on the Bank's own customer funds outflow statistics. Based on the liquidity risk stress testing results as at 31 December 2022, the secondary liquidity cushion created by the Bank covers the stress outflows under three business scenarios. Liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a one-year term.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at the 2022 year end, the Bank had safety margins on most economic NBU ratios.

Interest rate risk is a potential threat of loss occurrence, decrease in income, or decrease in value of the Bank's capital as a result of unfavorable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, interest rate risk is the result of the unbalanced structure of the statement of financial position by assets and liabilities by residual term to re-measurement date that are sensitive to changes in interest rates.

The Bank assesses interest rate risk by scenarios of parallel shifts in yield curve towards the increase in interest rates. Shock rate shifts for the baseline scenarios are calculated as the standard deviation for the recent 250 business days in terms of major currencies. As at 31 December 2022, the Bank was exposed to interest rate risk whose realization might impact net interest income and equity within one-year horizon – a possible decrease by UAH 126 million (31 December 2021: a decrease by UAH 13.8 million). Had there been increase in yield to maturity by 1 pp, the revaluation reserve for securities in equity would be lower by UAH 91,324 thousand as at 31 December 2022 (31 December 2021: by UAH 195,415 thousand).

The Bank assesses the above level of interest rate risk as acceptable and controllable, which will not affect significantly the Bank's yield and stable financial position.

Currency risk is the risk associated with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II Market Risk Framework, December 2010. VaR allows to assess maximum possible extent of losses with the set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess currency risk in the normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding the historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days, and one-sided confidence level is 99%. When determining currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount "1" in accordance with the Basel recommendations.

The results of currency risk calculation using VaR method as at 31 December were as follows:

Indicators	**2022**	**2021**
Currency risk without diversification consideration		
USD	14,873	93,735
EUR	9,707	5,368
Other currencies	6,557	3,234
Total currency risk without diversification consideration	**31,137**	**102,337**
Effect of diversification	(24,227)	(14,034)
Currency risk with diversification consideration	**6,910**	**88,303**

The above data are calculated based on internal management accounts of the Bank on the basis of the operating financial statements prepared in accordance with IFRS.

Assets and Liabilities Management Committee of the Bank examines the results of currency risk assessment on a monthly basis.

The Bank maintains and actively manages the capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored by using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital.

The NBU requires that banks maintain a capital adequacy ratio of 10% of risk-weighted assets computed based on the Ukrainian accounting rules. As at 31 December 2022 and 2021, the Bank complied with capital adequacy ratio and requirements to regulatory capital.

As at 31 December 2022, the Bank complied with regulatory requirements to capital. As at 31 December 2022 and 2021, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2022	**2021**
Tier 1 capital		
Issued capital	4,780,595	4,780,595
Share premium	101,660	101,660
Reserve capital	2,909,909	2, 909,909
Retained earnings	3,823,803	4,206,973
Total Tier 1 capital	**11,615,967**	**11,999,137**
Tier 2 capital		
Asset revaluation reserves	80,414	562,156
Total Tier 2 capital	**80,414**	**562,156**
Total capital	**11,696,381**	**12,561,293**
Capital adequacy ratio at the reporting date		
Risk weighted assets	60,530,717	67,647,323
Total capital	11,696,381	12,561,293
Capital adequacy ratio (%)	**19.32%**	**18.57%**

The existing risk management system evolves along with the growth of the Bank and is based, among other things, on the experience of overcoming major systemic crises in 1999, 2004, 2008, and 2014. Management believes that, at the current stage, the mature system of risk management has been formed, which allows to effectively eliminate both current and strategic challenges.

As a part of its overall financial risk management process, for the purpose of interest rate, currency, credit, and liquidity risks management, the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks. The Bank actively uses collateral to reduce its credit risks.

The Bank does not utilize hedge accounting defined in IFRS 9 "Financial Instruments". To mitigate market risks, the Bank may use derivatives to a limited extent, including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from those instruments are included in the statement of profit or loss as net gains/(losses) from financial derivatives.

Relations with shareholders and related parties

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control, and other related parties. Those transactions include settlements, loans, deposits, trade finance, and foreign currency transactions. The outstanding balances as at 31 December 2022 and income and expenses for the year ended 31 December 2022 were as follows:

As at and for the year ended 31 December 2022	**Parent**	**Entities under common control**	**Management**	**Other related parties**
Assets				
Loans and advances to customers	–	525,229	92	8
(UAH – interest rate, % p.a.)	–	–	*(19.24)*	*(46.00)*
(USD, EUR – interest rate, % p.a.)	–	*(6.00)*	–	–
Allowance for loan impairment	–	(179,577)	(9)	(1)
Other financial and non-financial assets	3	13,912	62	–
Liabilities				
Customer accounts	(140)	(14,172,949)	(91,474)	(245,368)
(UAH – interest rate, % p.a.)	–	*(14.57)*	*(14.17)*	*(11.90)*
(USD, EUR – interest rate, % p.a.)	–	*(0.38)*	*(0.02)*	*(0.83)*
Other financial and non-financial liabilities	–	(287,876)	(11)	(4)
Credit related liabilities				
Revocable commitments to extend loans	–	497,148	1,098	725
Guarantees and avals	–	1,316,461	–	–
Letters of credit	–	2,014	–	–
Income/(expense)				
Interest income	–	25,324	71	2
Interest expense	–	(790,818)	(2,415)	(5,594)
Commission income	113	155,180	701	1,170

As at and for the year ended 31 December 2022	Parent	Entities under common control	Management	Other related parties
Other income	–	8,684	11	18
Charges to provision for commitments, guarantees, and letters of credit	–	418	–	–
Allowance for loan impairment	–	(163,297)	15	9
Operating expense and other income/(expense)	–	241,213	661	–

Interest rate on loans to management in the form of credit cards and overdrafts is 35.88% after grace period and 0.01% under consumer loans (effective rate – 49.27%).

During 2022, software development and support services were provided to the Bank by a related party in the amount of UAH 639,314 thousand.

In 2022, the remuneration to 10 members of the Management Board comprised salaries of UAH 104,452 thousand (2021: UAH 85,075 thousand), mandatory contributions to the state funds in the amount of UAH 2,594 thousand (2021: UAH 2,393 thousand), and allowance for additional remuneration payment of UAH 27,803 thousand (2021: UAH 255,049 thousand). For the 12 months of 2022, the payments to five members of the Supervisory Board amounted to UAH 20,560 thousand (2021: UAH 21,488 thousand) and mandatory contributions to the state funds amounted to UAH 1,297 thousand (2021: UAH 1,414 thousand). For the 12 months of 2022, the remuneration to the people of weight in the Bank amounted to UAH 2,876 thousand (2021: UAH 6,685 thousand), mandatory contributions to the state funds of UAH 491 thousand (2021: UAH 949 thousand), and allowance for additional remuneration payment of UAH 307 thousand (2021: UAH 802 thousand).

Performance results and further growth

Results of the Bank

As at 31 December 2022, the Bank's total assets amounted to UAH 111,974 million, which was by UAH 7,325 million (+7%) higher than in the previous year (31 December 2021: UAH 104,649 million).

Corporate loan portfolio, before allowances for loan transactions, increased by UAH 4,494 million (+12.3%) to UAH 40,916 million. The allowances for impairment of corporate loans increased by UAH 4,138 million (+142.8%) to UAH 7,037 million.

Retail loan portfolio, before allowances for loan transactions, decreased by UAH 3,689 million (-16.8%) and amounted to UAH 18,298 million. The allowances for impairment of retail loans increased by UAH 5,983 million (+246.8%) to UAH 8,407 million.

The Bank's assets as at 31 December 2022 had the following structure:

1) Loans to customers – 39.1% (31 December 2021: 50.7%);
2) Cash on hand, balances with the NBU, and due from other banks – 44.6% (31 December 2021: 23.1%);
3) Securities portfolio – 11.2% (31 December 2021: 22.1%);
4) Property, plant, and equipment, investment property, intangible assets, other than goodwill, and right-of-use assets – 2.4% (31 December 2021: 2.3%);
5) Other assets – 2.7% (31 December 2021: 1.8%).

In 2022, the Bank's total equity decreased by UAH 867 million (-6.9%) and, as at 31 December 2022, amounted to UAH 11,696 million.

As at 31 December 2022 and 2021, the approved and authorized issued capital of the Bank comprised 14,323,880 ordinary shares with the nominal value of UAH 333.75 per share. All shares have equal voting rights. As at 31 December 2022, all shares were fully paid and registered.

On 22 March 2021, the General Shareholders' Meeting of the Bank decided to distribute retained earnings in the amount of UAH 1,304,047 thousand to the Bank's reserve capital and distribute the amount of UAH 1,304,046 thousand for the payment of dividends. In 2022, no dividends were paid.

The Bank's operating income for the year ended 31 December 2022 amounted to UAH 15,132 million, which was by UAH 3,476 million (+29.8%) higher than in 2021. This confirms a high efficiency of the management model and business taken as a whole.

For the year ended 31 December 2022, the Bank earned UAH 10,154 million of net interest income, which was by UAH 924 million (+10.0%) higher than in 2021.

In 2022, the Bank's net commission income amounted to UAH 2,021 million, which was by UAH 25 million (-1.2%) lower than in 2021.

Trade and other income of the Bank, based on the performance for the year ended 31 December 2022, amounted to UAH 2,956 million, which was by UAH 2,578 million higher than in the previous year. such a surplus is explained by the following. In December 2022, the Bank converted 41,048 Visa Class C ordinary shares into 164,192 Visa Class A ordinary shares and sold them in the open market. The Bank recognized Visa Class A ordinary shares as financial assets at fair value through profit or loss on the date of receipt of proceeds on their sale, respectively, by recognizing the gain on the initial recognition of financial assets at fair value through profit or loss in its statement of comprehensive income, profit or loss in the amount of UAH 1,242,933 thousand. and corresponding tax expenses in the amount of UAH 223,102 thousand.

In 2022, the Bank's operating expense decreased by UAH 503 million (-8.7%) and amounted to UAH 5,278 million.

To mitigate sensitivity to credit risk, a significant amount of funds was directed to create reserves for active operations. In 2022, expenses for creating allowances for impairment of loans and for obligations related to lending operations amounted to UAH 10,339 million, which was by UAH 9,575 million more than in the previous year. The created allowances covered 26.1% of the customer loan portfolio (9.1% as at 31 December 2021). Such a significant increase in provisioning costs is directly related to the full-scale military invasion of Russia.

Thus, the Bank's net loss for the year ended 31 December 2022 amounted to UAH 398 million. In the previous year, the Bank earned net profits in the amount of UAH 4,188 million.

The Bank's active operations

The main directions for the Bank's active operations traditionally were loans and government securities. Total amount of the loans granted, before allowances for expected credit losses, increased by UAH 804 million (+1.4%) to UAH 59,213 million as at 31 December 2022. The allowances for expected credit losses increased by UAH 10,121 million (+190.2%) to UAH 15,443 million.

Lending operations. The Bank's lending activities were performed in accordance with the Ukrainian legislation, restrictions imposed by the NBU under refinancing loans, and the Bank's internal regulations.

As at 31 December 2022, the corporate loan portfolio amounted to UAH 40,916 million, which was by UAH 4,494 million (+12.3%) higher than in the previous year. Loans to trading companies (32.3%), food processing industry and agriculture (31.2%) represented the major share in the Bank's corporate loan portfolio by industry sectors, with the food processing industry and agriculture companies portfolio demonstrating the biggest growth of UAH 4,124 million and the non-banking financial institutions portfolio showing the biggest decline by UAH 747 million.

As at the 2022 year end, the loans to individuals amounted to UAH 18,298 million, which was by UAH 3,689 million (-16.8%) lower than as at 31 December 2021.

The Bank's interest income on lending operations amounted to UAH 11,106 million in 2022, which was by UAH 1,179 million (+11.9%) higher than in 2021. Relative share of income on loans to customers in the interest income structure was 74.6% (2021: 82.4%).

Transactions with securities. As at 31 December 2022, the Bank's securities portfolio amounted to UAH 37,618 million, which was by UAH 5,576 million (+17.4%) higher than as at 31 December 2021.

As at 31 December 2022, total amount of Domestic Government Loan Bonds in the Bank's investment portfolio amounted to UAH 12,580 million, which was by UAH 4,446 million (-26.1%) lower than as at 31 December 2021.

In 2022, the interest income on transactions with securities amounted to UAH 3,620 million and increased by UAH 1,764 million (+95.0%) compared to 2021. At the end of 2022, the share of interest income on securities transactions in total interest income was 24.3% (2021: 15.7%).

The Investment Business Department carried out transactions with securities in accordance with the limits set.

Interbank operations. As at 31 December 2022, due from other banks amounted to UAH 18,813 million, which was by UAH 8,116 million (+75.9%) higher than as at 31 December 2021.

In 2022, interest income on interbank operations amounted to UAH 169 million (1.1% of the total interest income) and increased by UAH 118 million (+232.9%) compared to 2021.

The Bank's transactions with liabilities

The Bank's total liabilities increased by UAH 8,190 million or by +8.9% to UAH 100,278 million as at 31 December 2022.

Customer accounts. In 2022, customer accounts increased by UAH 9,428 million (+11.7%), the relative share in total liabilities structure increased from 87.9% to 90% in comparison with 2021. Corporate customer accounts increased by UAH 6,580 million (+14.4%) to UAH 52,169 million, and retail customer accounts increased by UAH 2,848 million (+8.1%) and amounted to UAH 38,130 million. As a result, the relative share of corporate customer accounts in total liabilities increased from 56.4% to 57.8%, retail customer accounts – decreased from 43.6% to 42.2%.

Borrowings. As at the 2022 year end, due to other banks increased by UAH 879 million (+60.8%) and amounted to UAH 2,324 million. In 2020, the Bank received from the National Bank of Ukraine three tranches of a refinancing loan in the total amount of UAH 4,200 million. In September 2021, the Bank received an additional tranche in the amount of UAH 1,500,000 thousand. At the end of 2022, the Bank prematurely paid one of the tranches in the amount of UAH 1,500,000 thousand. As at 31 December 2022, the interest rate on tranches amounted from 25% to 26% p.a. (31 December 2021: the interest rate on tranches was in the range from 9% to 10.5% p.a.) and the maturities ranged from 3 March 2023 to 5 December 2025 (31 December 2021: from 6 September 2024 to 5 December 2025). As at 31 December 2022, the carrying amounts were UAH 4,188,304 thousand.(31 December 2021: UAH 5,693,029 thousand). The loan was secured by government debt securities with the fair value of UAH 4,467,729 thousand as at 31 December 2022 (31 December 2021: UAH 7,301,729 thousand). At the beginning of 2023, the Bank early repaid the amounts due to the National Bank of Ukraine in full in the amount.

The Bank's achievements in 2022

Effective from 24 February 2022, the entire banking system of Ukraine, including FUIB, faced unforeseen challenges caused by the full-scale invasion of Russian troops. However, despite shelling, blackouts, and other risks, the Ukrainian banking system withstood all the tests.

- The annual research of the banking market conducted by the "Financial Club" publication was adapted to the work of banks in the conditions of the martial law – "25 Leading Banks of Ukraine during the War". The results of the rating were published at the end of December 2022:
  - FUIB's Chairperson of the Management Board, Serhii Chernenko, became the best in the Best Top Manager nomination;
  - Serhii Mahdych, FUIB's Deputy Chairperson of the Management Board Responsible for Corporate Business, was ranked in the Best Corporate Banker nomination;
  - FUIB became a winner in four thematic ratings, it was ranked the first in the categories of "Savings Bank", "Loans by Cash", "Credit Cards", and "Payroll Projects".
- FUIB was recognized in four nominations of the annual FinAwards 2022.
  - FUIB became the best bank for small and medium-sized businesses. Gold in the category – recognition of the bank as a responsible and reliable partner for SME customers, together with a new tariff package for forcibly relocated businesses – "EVERYTHING WILL BE UKRAINE".
  - Sebastian Rubaj, FUIB's Deputy Chairperson of the Management Board Responsible for Retail Business, was named as the Best Leader of Retail Business.
  - FUIB received silver for the "vseKARTA" debit card in the "Best Payment Card" category.
  - The advertising campaign "FUIB. 30 Years Together" also became one of three leaders in the category "Best Advertising Campaign: Banks".
- FUIB became a winner in the annual professional premium of Ukrainian Fintech Awards 2022 in three nominations – Best Corporate Banking Digitalization, Best Finance ESG Initiative, and Fintech Marketing Campaign of the Year.
- Unbreakable Fintech – PaySpace Magazine Awards 2022 named the best Fintech brands in 2022. FUIB took the third place in the nomination "Best Credit Support of Business during the War", the second place in the nomination "Best Acquiring Bank", and the first place in the nomination "Best Processing Center".
- The independent rating agency "Credit-Rating" confirmed the long-term credit rating of the First Ukrainian International Bank (FUIB) at the uaAAA level. The rating is in the checklist. The rating forecast is negative. The agency also confirmed the reliability rating of the Bank's deposits at the level of "5" (highest reliability).

FUIB continues developing innovative services and taking care of convenience and comfort of its customers.

One of the priorities of FUIB is the development of products and services for small and medium-sized entities.

FUIB's mission is to provide customers with high quality banking products, perfect and constantly improving service, and an individual approach. FUIB is constantly improving its business processes, implements the latest technological solutions, and improves the level of service and quality of products.

FUIB consistently strives to improve the quality of services provided to its customers.

Corporative Management Report

Bank — FUIB JSC;

Report period — 2022.

1) Purpose of the Bank's activities

The main purpose of the Bank is to achieve position of a modern, universal, competitive bank of Ukraine, a leader in provision of banking services that will satisfy the needs of clients in modern banking and financial instruments.

The main business goals of the Bank for the coming years:

- To increase business efficiency;
- To increase net profit and improve the loan portfolio quality;
- To support and develop retail and small businesses;
- To increase the client base by building the long-term trusting relationships with clients;
- To expand the bank's network;
- To develop the remote service channels;
- To carry out process reengineering: to automate, accelerate, and increase stability and optimization;
- To improve and introduce the innovative products.

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

In order to regulate the principles of corporate governance in the Bank according to the requirements of the legislation of Ukraine and the provisions of the Bank's Charter, the Corporate Governance Code of FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY (hereinafter referred to as the "Bank") was approved by the decision of the General Meeting of Shareholders dated November 27, 2018. The Corporate Governance Code of FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY in new version was approved by the decision of the General Meeting of Shareholders dated October 14, 2022.

The Code (is published) is available on the Bank's official website via the link: https://about.pumb.ua/management.

In the process of its activity, the Bank adheres to and implements in daily practice the defined basic corporate governance principles, such as:

1) Full observance of the rights and interests of the Bank's shareholders;
2) Separation of powers and responsibilities in business management;
3) Appropriate accountability level;
4) Proper level of restraint and balance system;
5) Balance and effectiveness of the internal control and risk management system;
6) High standards of corporate culture and business ethics;
7) Compliance with corporate social responsibility;
8) Information transparency.

Within 2022 the Bank strictly adhered to the corporate governance principles and the Corporate Governance Code. No violations of the Corporate Governance Code requirements were recorded.

3) Information on the owners of significant share (including persons exercising control over the Bank), their compliance with the requirements established by legislation and changes in their composition within the year

As of December 31, 2022, the owners of significant share of the Bank are as follows:

1. SKM FINANCE LIMITED LIABILITY COMPANY (hereinafter referred to as "SKM FINANCE LLC"), a shareholder of the Bank who directly owns ordinary registered shares of the Bank in the amount of 92.342249%;
2. SYSTEM CAPITAL MANAGEMENT PRIVATE JOINT-STOCK COMPANY that indirectly owns ordinary registered shares of the Bank in the amount of 92.4188%.
3. Rinat Leonidovych Akhmetov that indirectly owns ordinary registered shares of the Bank in the amount of 100% and is the ultimate beneficial owner of the Bank.

The business reputation and financial/property status of the owners of significant share of the Bank fully meet the requirements established by the law.

SKM FINANCE LLC, as a shareholder of the Bank, received the written permission of the National Bank of Ukraine (hereinafter referred to as the "NBU") to increase the significant share in the Bank dated January 06, 2006, No. 1.

Within the reporting period, the ownership structure of the Bank did not change.

4) Information on the general meeting of the Bank's shareholders and a general description of the decisions made at the meeting

On October 14, 2022, at the initiative of the Bank's Supervisory Board, the annual General Meeting of Shareholders (hereinafter referred to as the GMS) was held, where the following issues were considered:

1. On the approval of the annual report of the Bank for 2021.
2. On consideration of the conclusions of external (independent) audit regarding the Bank's annual report for 2021 and approving the measures based on the results of their consideration.
3. On distribution of the Bank's profit based on the results of work in 2021.
4. On determination of the main areas of the Bank's activity for 2022.
5. On consideration of the Report of the Bank's Supervisory Board for 2021 and approval of measures based on the results of its consideration. Making decisions based on the results of consideration of the Report of the Bank's Supervisory Board for 2021.
6. On the practicability of introducing changes to the Regulation on Remuneration of Members of the Supervisory Board of FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY.
7. On approval of the Report on Remuneration of Members of the Bank's Supervisory Board for 2021.
8. On approval of the FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY Corporate Governance Code in new version.

Annual GMS was held remotely due to introduction of martial law in Ukraine in accordance with the Decree of the President of Ukraine dated February 24, 2022, No.64/2022, of the Law of Ukraine "On Approval of the Decree of the President of Ukraine "On Prolonging the Term of Martial Law in Ukraine" and on the basis of decision of the National Securities and Stock Market Commission dated March 16, 2022, No. 177 (as amended) "Regarding the Peculiarities of the Functioning of the Management Bodies of the Shareholders of the Joint-Stock Company within the Period of Martial Law". Offers for the list of agenda clauses were not submitted. The quorum of the annual GMS was 93.34% of the total number of voting shares. Appropriate decisions were made on all issues on the agenda, namely: the Bank's annual report for 2021 was approved, including the Bank's financial statements for 2021 prepared in accordance with international financial reporting standards (IFRS), the conclusions of the Bank's external (independent) auditor Deloitte & Touche Ukrainian Service Company LLC regarding the Bank's annual report for 2021 were considered. The decision of the annual GMS determined the main directions of the Bank's activities for 2022, approved the Report of the Bank's Supervisory Board and recognized the high level of effectiveness of its activities, the Report on the Remuneration of the Members of the Bank's Supervisory Board for 2021. The Bank's Corporate Governance Code (Principles) was (were) also approved in a new version, and it was determined that it would be inexpedient to introduce changes to the Regulation on Remuneration of Members of the Bank's Supervisory Board approved by decision of the extraordinary General Meeting of FUIB JSC on November 25, 2021 (Minutes No.87), due to its compliance with the requirements of the law.

Minutes of voting results are freely available on the Bank's official website at the following link: https://about.pumb.ua/management/investors

The results of extraordinary GMS are formalized by Minutes No.88 dated October 14, 2022.

5) Information on any restrictions on participation and voting rights of the Bank's shareholders at the general meeting

The Bank's Charter does not provide for any restrictions on the participation and voting rights at the General Meeting of Shareholders for the owners of ordinary registered shares of the Bank, except for the restrictions stipulated by the legislation of Ukraine.

The Bank provides the Bank's shareholders with the opportunity to familiarize themselves with the documents necessary for making decisions on the agenda at the General Meeting of Shareholders, in accordance with the procedure established by the Law of Ukraine "On Joint-Stock Companies".

6) Procedure for appointing and dismissing the Bank officials

The election and termination of the Bank's Supervisory Board members powers takes place by the decision of the General Meeting of Shareholders. According to the requirements of the Law of Ukraine "On Joint-Stock Companies", the members of the Supervisory Board are elected by cumulative voting, and the powers termination and election of the Chairman of the Supervisory Board of the Bank is carried out by voting, where the decision is considered adopted if it was voted for by a simple majority of the shareholders who registered for participation in general meeting and are owners of voting shares on this issue.

Appointment and termination of powers/dismissal of the Chairman and members (including Deputy Chairman) of the Bank's Management Board are excluded from the competence of the Bank's Supervisory Board. The decision is made by a simple majority of the members of the Supervisory Board who participate in the meeting and have the right to vote. In the case of an equal distribution of votes of members of the Supervisory Board within the decision-making, the vote of the Chairman of the Supervisory Board is decisive.

7) Powers of Bank's officials

The Bank's officials powers are set out in the Bank's Charter, Regulations on the Bank's Supervisory Board and the Management Board that are freely available on the Bank's official website at the following link: https://about.pumb.ua/management.

The Bank also has an Order, according to which positions and functional duties are distributed between the members of the Management Board according to the Bank's activities.

8) Information on the composition of the Bank's Supervisory Board and its change within the year, including the committees formed by it, as well as information on the meetings held with a general description of the decisions made

The Bank's Supervisory Board is a collegial body of the Bank that supervises the activities of the Bank's Management Board and protects the rights of depositors, other creditors and shareholders of the Bank within the scope of competence defined by the Charter and legislation of Ukraine.

In its activities, the Bank's Supervisory Board is guided by the laws of Ukraine "On Banks and Banking Activities", "On Joint-Stock Companies", regulatory legal acts of the National Bank of Ukraine, the Bank's Charter, decisions of the General Meeting, as well as the Regulation "On the Supervisory Board of FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY".

Members of the Bank's Supervisory Board are elected from among the Bank's shareholders, their representatives and independent members.

Within 2022, the Supervisory Board worked in the composition elected by Extraordinary General Meeting dated November 25, 2021 (Minutes No.87):

- Oleh Mykolaiovych Popov — Chairman of the Bank's Supervisory Board, representative of shareholder SKM FINANCE LLC;
- Marharyta Viktorivna Povazhna — member of the Bank's Supervisory Board, representative of shareholder SKM FINANCE LLC;
- Katanov Georgi Bogomilov — member of the Bank's Supervisory Board, representative of shareholder SKM FINANCE LLC;
- Hanna Oleksandrivna Duhadko — member of the Bank's Supervisory Board, representative of shareholder SKM FINANCE LLC;
- Serhii Yevhenovych Kurilko — member of the Bank's Supervisory Board, representative of shareholder SKM FINANCE LLC;
- Catherine Elizabeth Ann Stalker — member of the Bank's Supervisory Board – independent director;
- Ansis Grasmanis — member of the Bank's Supervisory Board – independent director;
- Mihov Valentin Lubomirov — member of the Bank's Supervisory Board – independent director.

The approved composition of the Supervisory Board and the number of independent directors meet the requirements of the law, and are also optimal and sufficient for the Bank's Supervisory Board to exercise its powers.

All members of the Supervisory Board meet the qualification requirements regarding business reputation and professional suitability, have significant managerial and professional experience, understanding of financial analysis and risk aspects of the Bank's work.

Independent directors meet the requirements for their independence established by law.

The collective suitability of the Bank's Supervisory Board corresponds to the size, specifics of the Bank's activities, the nature and scope of banking and other financial services, the Bank's risk profile, the systemic importance of the Bank and the activities of the Banking Group that is a part of the Bank.

The members of the Bank's Supervisory Board have experience in the field of strategic planning, business development, corporate governance, risk management and building an effective internal control system, problem asset management, accounting, and also have knowledge specific to the Bank's field of activity that allows them to discuss issues, by which decisions are made professionally.

The Bank's Supervisory Board is balanced in terms of its members' experience and key skills necessary for their effective work.

Distribution of powers among the Supervisory Board members is approved by Decision of the Bank's Supervisory Board dated December 16, 2021 (Minutes No.379).

According to the requirements of the law, the Bank's Supervisory Board is subordinated to control units (vertical risk management units, Internal Audit Department, Compliance Control Department) and the Bank employee is responsible for financial monitoring.

The organizational form of work of the Supervisory Board, as a collegial body, is a meeting.

Within 2022, the Supervisory Board of the Bank conducted 14 meetings, where 5 — regular meetings, and 9 — extraordinary meetings. Regular meetings of the Bank's Supervisory Board were held in accordance with the approved Work Plan for 2022.

Meetings of the Bank's Supervisory Board were held in full.

The Chairman and Deputy Chairman of the Bank's Management Board, the director of the Internal Audit Department, the head of the Compliance Control Department, the Bank's employee responsible for financial monitoring were additionally invited to the meeting.

With the beginning of the armed aggression of the Russian Federation against Ukraine, the work of the Supervisory Board was directed to prevention and/or elimination of phenomena unfavorable to the effective Bank operation. So, Anti-crisis management regarding the restoration of the Bank's activities headed by the Committee for crisis management and restoration of financial stability of FUIB JSC was implemented by decision of the Supervisory Board dated February 24, 2022, according to the Anti-crisis plan of measures to restore financial stability of FUIB JSC in case of unforeseen circumstances regarding the management of continuous activity approved by the Supervisory Board of FUIB JSC No.374 dated September 16, 2021. Also, at quarterly meetings, reports on anti-crisis management, management reports on the current situation in the Bank related to introduction of martial law in Ukraine, namely, on the state of loan portfolios, formed reserves, losses incurred as a result of destruction and damage of the Bank's property, were considered on an ongoing basis. In order to support business, issues related to introduction of forgiveness programs and debt restructuring of the Bank's clients were considered. Special attention was paid to assessment of capital adequacy considering the risks of war, ensuring the uninterrupted operation of the Bank's critical IT infrastructure and cyber security. Indicators of the Bank's risk appetite, namely, credit, operational and market risks, and liquidity risks, were under constant control. When the situation improved, decisions to restore lending and stop the vacation were made.

In addition, the Supervisory Board made a decision on the following strategic issues of the Bank's activity:

- The Bank's budget for 2022, namely, the budgets of control units were approved;
- The Problem Asset Management Strategy for 2022-2024 and the Problem Asset Management Operational Plan for 2022, the Policy "Problem Asset Management Strategy for 2022-2024 and the Operational Plan for Implementation of the Problem Asset Management Strategy for 2022" were approved;
- The results of the external audit of the financial statements for 2021 were considered and the recommendations to the General Meeting of Shareholders based on the results of consideration of the conclusion and the Report of the external auditor was approved;
- The main terms of the agreement with the independent external auditor regarding provision of services to the Bank for the mandatory audit of financial statements for the period that will end on December 31, 2022, were approved and the amount of payment for his/her services was established;
- Employment contracts with Deputy Chairman of the Management Board and Financial Director K.O. Shkoliarenko, with the Deputy Chairman of the Board for Risk Management (CRO) F.Ye. Yeremenko, with a member of the Board H.V. Horbenko, were prolonged;
- New composition of the Risk Management Committee of FUIB JSC Supervisory Board was elected;
- The decision on the convening and remote holding of the annual General Meeting of the Bank's shareholders was made;
- Reports of the Board and the Corporate Secretary for 2021 were approved;
- The results of the SREP assessment and the Inspection Report for the period of the Bank's activity from February 24, 2022, till September 13, 2022, were considered, the measures to implement the NBU recommendations were approved;
- The assessment of the Supervisory Board, Management Board, and control units effectiveness was carried out;
- The assessment matrix for the collective suitability of the members of the Supervisory Board and the Management Board was considered;
- The results of the conducted annual assessment of the compliance of the members of the Supervisory Board, the Management Board and other managers of the Bank with the qualification requirements established by the NBU for the managers of the Bank were approved;
- The Department-Tribe of non-credit products in the Retail business vertical was created and changes were made to the organizational structure of the Department of Retail Risks;
- "Policy on Remuneration in FIRST UKRAINIAN INTERNATIONAL BANK JOINT STOCK COMPANY" was approved;

- Appraisers of the Bank's property were elected and agreement terms were approved;
- FUIB JSC Code of Corporate Ethics in new version was approved;
- Updated versions of the Bank's internal regulatory documents on risk management and compliance control were approved.

In the reporting year, the Supervisory Board ensured the functioning and carried out control over the effectiveness of the risk management system by approving target indicators of risk-appetite for 2022 in accordance with the Risk Appetite Statement of FUIB JSC, consideration of quarterly reports on risk management in the Bank and the Banking Group, reports on compliance – control and assessment of the Bank's risk profile in the field of AML/FT, consideration of conditions for financing the operations of persons related to the Bank.

In order to ensure the operation and control of the effectiveness of the Bank's comprehensive and adequate internal control system, including internal audit, the Supervisory Board approved the annual plan of the unit's activities, and made changes to the table of organization. The Supervisory Board members review the quarterly results of the internal audit activity and the main results of the conducted audits, the annual report on the evaluation of the effectiveness of the Internal Audit Department and the results of the self-assessment, quarterly evaluations of the Internal Control System and reports on the monitoring of key control indicators.

Also, within the reporting period, the Supervisory Board made decisions regarding:

- Approval in updated versions of the provisions on the committees of the Supervisory Board, the provisions on the annual assessment of the effectiveness of the activities of the Supervisory Board, the Bank's Management Board, control units;
- Approval of the results of the evaluation of the activities of the Bank's Management Board in 2021 and bank-wide goals and objectives for 2022;
- Approval of implementation of goals for 2021 by the Head of the Compliance Control Department (CCO), the Bank employee responsible for financial monitoring and approving their goals for 2022;
- Coordination/approval of reports on the remuneration of members of the Bank's Supervisory Board, the Management Board and influential persons;
- Personnel development strategies and the Bank's personnel policy (paying the Bank's employees, determining the amount of additional remuneration, reviewing the indicators and dynamics of staff turnover, the results of a survey to determine the degree of employee satisfaction) and other organizational issues of the Bank's Supervisory Board.

Appropriate decisions were made on all issues of the agenda that are recorded in the Minutes of the meetings of the Bank's Supervisory Board.

Issues submitted for consideration by the Supervisory Board were previously considered by the Bank's Management Board within its powers and by the relevant committees of the Supervisory Board.

Issues or reports of the Bank's structural units subordinated and/or directly accountable to the Bank's Supervisory Board are preliminarily considered and processed by the Supervisory Board's committees in cases provided for by the Bank's internal regulatory documents, including the provisions on the relevant committee of the Bank's Supervisory Board.

The Bank annually evaluates the effectiveness of the Supervisory Board as a whole and of each member individually. The results of the assessment of the Supervisory Board's activity in 2022 showed a high level of organization of the Supervisory Board and its committees work, the internal efficiency and interaction of the Supervisory Board, the Management Board and the Bank's shareholders, and fulfillment of the goals set by the Supervisory Board.

Each of the members of the Bank's Supervisory Board has a sufficient level of qualification and professional suitability, as well as appropriate experience, and devotes enough time to the work of the Board and its committees that allows him/her to perform the functions assigned to him/her efficiently and qualitatively, as well as to solve complex and important issues of the Bank's activities promptly and timely.

Members of the Bank's Supervisory Board adhere to the professional and ethical standards of the Bank's Code of Corporate Ethics.

The members of the Bank's Supervisory Board have no real or potential conflicts of interest.

The Chairman and members of the Supervisory Board comply with the duties of care and loyalty towards the Bank in accordance with the requirements of the law.

In 2022 the Bank's Supervisory Board was focused on:

- Anti-crisis management and ensuring continuous operation of the Bank;
- Risks management and reduction of their negative impact on the Bank's capital;
- Preservation of the team and support of the Bank's employees.

In the conditions of martial law, the work of the Supervisory Board was coordinated and effective, aimed at supporting the stable and continuous operation of the Bank.

According to the requirements of the Law of Ukraine "On Banks and Banking Activities" for the purpose of preliminary study and preparation for consideration of issues that belong to the competence of the Supervisory Board as of January 01, 2019, the following mandatory committees function:

Audit Committee;

Risk Management Committee;

Remuneration and Appointments Committee.

The committees are headed by independent directors.

Activities of the Audit Committee in 2022.

Within 2022, the Audit Committee (hereinafter referred to as the "AC") functioned in the following composition:

- Ansis Grasmanis, the Committee Head;
- Marharyta Viktorivna Povazhna, the Committee Member;
- Mihov Valentin Lubomirov, the Committee Member.

The AC carries out its activities on the basis of "Regulations on FUIB JSC Supervisory Board Audit Committee".

The AC held 5 regular and 2 extraordinary meetings in the form of video conferences for the reporting period. The AC meetings were held in full.

In accordance with the functions assigned by the Supervisory Board, within 2022, the AC performed the role of an advisory body of the Supervisory Board on issues of control and regulation of the Bank's activities in the field of financial reporting, external and internal audit, and internal control.

Within 2022, at the meetings of the AC the following issues were considered:

- ***In terms of internal control:***

a) The reports of the Bank's management on the results of monitoring of key control indicators for Q4 of 2021 and Q1-Q3 of 2022 were considered;

b) A generalized evaluation of the effectiveness of the Bank's Internal Control System as of January 01, 2022, performed by the Internal Audit Department based on the results of its work for 2021, and a generalized evaluation of the functioning of the Internal Control System by the Bank's management made based on the results of quarterly monitoring reports of key control indicators in general for 2021 were considered;

c) The results of the inspection checks of the National Bank of Ukraine and recommendations to the Supervisory Board regarding the approval of the plan of measures to implement the recommendations based on the results of the inspection were considered.

- ***In terms of financial reporting and external audit:***

a) In February of 2022 and later in July and October of 2022, meetings with the Bank's external auditor in person of partner and manager of audit firm Deloitte & Touche Ukrainian Service Company LLC (N. Samoilova and V. Laguta) regarding the audit of financial statements for 2021 was held, and the issue of compliance by the audit firm with the principles of independence and objectivity (there are no comments from the Committee Members regarding the independence of the external auditor) was discussed;

b) In December of 2022, meeting with partner and manager of Deloitte & Touche Ukrainian Service Company LLC on the issue of planning an audit for 2022 was held, and the issue of approving the main terms of the agreement with the auditor regarding the mandatory audit of the Bank's financial statements for 2022 with provision of the corresponding recommendation to the Supervisory Board were discussed.

- ***In terms of internal audit:***

a) Monitoring and checking the performance of the Bank's Internal Audit Department (IAD) which included evaluation of the performance of the IAD Director, making recommendations to the Supervisory Board regarding the approval of the amount of remuneration to the director and employees of the IAD (including approval of decisions on rewarding the director and employees of the IAD according to the results of achieving the goals set for 2021 and approval of the IAD Personnel Schedule starting of January 20, 2022) was implemented;

b) Offers for setting goals for the IAD for 2022 were prepared;

c) Analysis and discussion of the IAD reports based on the results of inspections and IAD work reports performed by them for Q4 of 2021 (including the results of the assessment of the Bank's Internal Control System effectiveness as of January 01, 2022, and the results of the audit of the financial monitoring organization in the Bank), Q1-Q3 of 2022 and October-November of 2022 were performed;

d) The report on implementation of the IAD Development Concept, the Program for Ensuring and Improving the Quality of Internal Audit for 2020-2022 (according to the work results for 2021) was considered;

e) The IAD self-assessment results for 2021 were considered;

f) The updated version of the "Regulations on FUIB JSC Internal Audit Department" is coordinated and recommendation to the Supervisory Board regarding its approval was provided;

g) Information on implementation of internal audit recommendations for half-year I of 2022 and 9 months of 2022 by the Bank's units was considered;

h) Recommendations were provided to the Bank's Supervisory Board regarding the approval of the revised IAD Activity Plan for 2022 due to the military situation in Ukraine, new regulatory requirements and changes in the Bank's strategic tasks;

i) Issues on the level of remuneration of the IAD employees was considered and recommendation on approval of the IAD Personnel Schedule starting of October 01, 2022, was provided to the Supervisory Board;

j) Projects of the IAD Strategic Plan for 2023-2025, Activity Plan for 2023 and the IAD Budget for 2023 were considered and recommendations of the approval were provided to the Supervisory Board.

The Committee submitted offers regarding all issues considered to the Supervisory Board formalized by relevant decisions in the Minutes of the meetings.

Activities of the Risk Management Committee in 2022

Within the period from January 01, 2022, till July 21, 2022, the Risk Management Committee (hereinafter referred to as the "RMC") worked in the composition appointed by the decision of the Supervisory Board dated December 13, 2021 (Minutes No.378), namely:

- Hanna Oleksandrivna Duhadko, the temporary acting Chairman of the committee, the Supervisory Board member;
- Ansis Grasmanis, the Committee Member, the Independent Director;
- Marharyta Viktorivna Povazhna, the Committee Member, the Supervisory Board Member;
- Katanov Georgi Bogomilov, the Committee Member, the Supervisory Board Member;
- Serhii Yevhenovych Kurilko, the Committee Member, Supervisory Board Member.
- Within the period from July 22, 2022, till December 31, 2022, the RMC worked in the composition appointed by decision of the Supervisory Board dated July 21, 2022 (Minutes No.387), namely:
- Mihov Valentin Lubomirov, the Committee Head, the independent director;
- Hanna Oleksandrivna Duhadko, the Committee Member, Supervisory Board Member;
- Ansis Grasmanis, the Committee Member, the Independent Director.

The RMC carries out its activities on the basis of "Regulations on FUIB JSC Supervisory Board Risk Management Committee".

9 RMC meetings, where 5 regular and 4 extraordinary meetings in the form of video conferences, were performed in 2022. The RMC meetings were held in full.

Within the terms of the functions assigned by the Supervisory Board, during the year, the RMC performed the role of an advisory body of the Supervisory Board on the following issues:

- Supervision of the risk management function in the Bank;
- Providing recommendations, consultations, offers to the Bank's Supervisory Board on risk management issues for decision-making by it;
- Monitoring the compliance with the Bank's established aggregate level of risk-appetite and the level of risk-appetite for each of the types of risk in accordance with the Risk Appetite Statement;
- Monitoring the implementation of risk management strategy and policy;
- Control over the performance of the CRO, CCO, risk management units and the Compliance Control Department, the functions assigned to them;
- Ensuring the development and participation in development of internal bank documents (namely, Policies and procedures) on the Bank's risk management issues, as well as their regular (at least once a year) consideration in order to update them and control their implementation and compliance in the Bank;
- Control of the state of implementation of measures to eliminate deficiencies in the functioning of the risk management system, implementation of recommendations and comments of the internal audit unit, external auditors, the National Bank of Ukraine and other regulatory bodies;
- Monitoring that the pricing/setting of tariffs for banking products considers the Bank's business model and risk management strategy. If the prices/tariffs do not cover the Bank's risks, the Risk Management Committee develops measures and submits them to the Bank's Supervisory Board for consideration;
- Providing the Bank's Supervisory Board with reports on performance of the tasks assigned to it at least once a quarter;
- Ensuring the performance of other functions and powers on the issues of risk management specified in this Regulation.

At the RMC meeting in 2022 the following issues were considered:

- Indicators of risk appetites of significant risks;
- The current situation in the Bank related to introduction of martial law in Ukraine:
  - Credit risks (approaches to lending, restructuring and reserves)
  - Liquidity risk
  - Market risks
  - Operational risks (losses from war);
- Capital adequacy assessments considering the risks of war;
- Ensuring continuous operation of critical it infrastructure;
- Ensuring the bank's cyber security under martial law conditions;
- Quarterly monitoring of risk-appetite;
- Quarterly reporting of work with problem loans (cb and rb);
- Quarterly reporting on the loan portfolio of kb and rb;
- Quarterly reporting on market risks and risks of interbank lending and securities transactions;
- Quarterly reporting on operational risks: fraud risk management system, information security management system, physical security management system;
- Quarterly reporting on work with related parties;
- Quarterly reporting on compliance with requirements and assessment of the compliance-risk level;
- Consideration of regulatory documents regarding risks and compliance;
- Detected violations regarding the risk limits;
- Reporting on the results of pricing control/setting tariffs for banking products;
- The results of the bank's annual srep assessment;
- Budget for 2023 for risk management units and the Compliance Control Department.

Activities of the Remuneration and Appointments Committee in 2022

Within 2022, the Remuneration and Appointments Committee (hereinafter referred to as the "RAC") functioned in the following composition:

- Catherine Elizabeth Ann Stalker, the Committee Head;
- Oleh Mykolaiovych Popov, the Committee Member;
- Mihov Valentin Lubomirov, the Committee Member.

The RAC carries out its activities on the basis of "Regulations on FUIB JSC Supervisory Board Remuneration and Appointments Committee.

5 RAC regular meetings in the form of video conferences were performed in 2022. The RAC meetings were held in full.

Within the limits of the functions assigned by the Supervisory Board, during the year the RAC considered and provided recommendations to the Supervisory Board on issues related to formation of personnel policy for selection of highly qualified managers of the Bank, development of principles and criteria for determining the amount of remuneration and compensation paid to managers and other persons performing managerial functions, development of a transparent system of their motivation, and etc.

At the RAC meeting the following issues were considered:

- Summarizing the activities of the Management Board members for 2021 and coordination of the Chairman and Management Board members annual performance assessment results for 2021;
- Coordination of reports on the remuneration of the Supervisory Board members, the Bank's Management Board, and influential persons for 2021;
- Coordination of bank-wide goals and goals for the Management Board Chairman and members for 2022;
- Coordination of implementation of the goals of the CRO, CSO, the Bank employee responsible for financial monitoring in 2021 and coordination of the goals for the specified persons for 2022;
- Consideration of the Report on the Bank's Supervisory Board and Management Board effectiveness for 2021 and measures based on the results of its consideration;
- Consideration of the report of the Bank's Corporate Secretary for 2021;
- Prolongation of agreements with the Deputy Chairman of the Board;

- Coordination of the results of the conducted annual assessment of the compliance of the members of the Supervisory Board, the Management Board and other managers of the Bank with the qualification requirements established by the NBU for the managers of the Bank;
- Coordination of internal regulatory documents of the Bank within the scope of competence.

Considerable attention was paid to the Bank's personnel management within the period of martial law, its support and social protection. Namely, the salaries of the Bank's employees were reviewed, and the results of eNPS survey were discussed. The status and turnover of the Bank's employees was monitored on an ongoing basis.

9) Information on the composition of the Bank's executive body and its changes within the year, including the committees formed by it, as well as information on the meetings held with a general description of the decisions made

The Management Board is the collegial executive body that carries out the current management of the Bank.

The Management Board competence is to resolve all issues related to management of the current activities of the Bank, except for issues that belong to the exclusive competence of the Meeting and the Supervisory Board.

The deputy chairmen of the Bank's Management Board are part of the Bank's Management Board ex officio.

The quantitative and personnel composition of the Management Board and the term of office of the Management Board members are determined by the Supervisory Board.

The Management Board includes: Chairman of the Management Board, the First Deputy Chairman of the Management Board (if appointed by the Supervisory Board), Deputy Chairman of the Management Board, members of the Management Board.

Within 2022, the Management Board worked in the following composition:

The Chairman of the Board — Serhii Pavlovych Chernenko, carries out operational management of current activities and ensures stable and efficient work of the Bank. He is responsible for arrangement of the Bank's work in all areas of its activity. He ensures implementation of the Bank's Strategy. He arranges the implementation of decisions of the General Meeting of Shareholders and the Supervisory Board. Powers of S.P. Chernenko as the Chairman of the Bank's Management Board are prolonged by decision of the Supervisory Board dated April 29, 2021, for three years — till November 04, 2024, inclusive.

The Deputy Chairman of the Board – Financial Director — Kostiantyn Oleksandrovych Shkoliarenko, is responsible for the Bank's general accounting and financial policy, the Bank's budget, as well as effective management of the Bank's pricing policy. He ensures control over arrangement of conditions for compliance with accounting, reporting and methodology in accordance with the national and international standards. He defines the standards of management accounting and reporting, strategic planning and analysis. He monitors implementation of the Bank's policy in the field of improving the problem debt repayment system to ensure the Bank's stable development. Powers of K.O. Shkoliarenko are prolonged by decision of the Supervisory Board dated February 24, 2022, for three years — till July 04, 2025, inclusive.

The Deputy Chairman of the Board — Serhii Borysovych Mahdych, the person responsible for implementation of the Bank's strategy in corporate business in order to achieve and maintain the Bank's competitive advantage and results determined by the Bank's general strategy. The powers of S.B. Mahdych are prolonged by decision of the Supervisory Board dated October 21, 2021, for three years — till March 14, 2025, inclusive.

The Deputy Chairman of the Board — Sebastian Rubai, the person responsible for implementation of the Bank's strategy in the retail business in order to achieve and maintain the Bank's competitive advantage and results determined by the Bank's general strategy.

The Deputy Chairman of the Board — Artur Hermanovych Zahorodnykov, is responsible for improving the system of attracting and retaining large corporate clients with state ownership considering the innovative approaches, individual characteristics of clients and use of the most relevant banking products. He coordinates work with executive authorities. The powers of A.H. Zahorodnykov are prolonged by decision of the Supervisory Board dated July 22, 2021, for three years — till December 31, 2024, inclusive.

The Deputy Chairman of the Board for Risk Management (CRO) — Fedot Yevhenovych Yeremenko (the main risk-manager of the Bank), ensures implementation and continuous functioning of risk management system processes that guarantee timely detection, measurement, monitoring, control, mitigation and reporting of material risks (credit, market, operational, liquidity and other material risks). He is responsible for the activities of the risk management units. Powers of F.Ye. Yeremenko are prolonged by decision of the Supervisory Board dated July 21, 2022, for three years — till December 19, 2025, inclusive.

Deputy Chairman of the Board — Natalia Feliksivna Kosenko, is responsible for development and efficient operation of the Bank's regional network. The powers of N.F. Kosenko are prolonged by decision of the Supervisory Board dated July 22, 2021, for three years — till December 31, 2024, inclusive.

The Deputy Chairman of the Board — Leonid Pavlovych Skalozub, is responsible for ensuring the bank's economic, financial, informational, physical, and technical security, organization of security and regime, detection and termination of encroachments on the bank's reputation and property, coordination of work to protect its interests in criminal proceedings. He coordinates the Security Department work.

The Deputy Chairman of the Board — Tetiana Vasylivna Kostiuchenko, determines and coordinates development and implementation of strategic policies and practices in the field of personnel management aimed at achieving the Bank's financial goals and standards. The powers of T.V. Kostiuchenko are prolonged by decision of the Supervisory Board dated April 19, 2022, for three years — till August 01, 2025, inclusive.

The Member of the Board, the Bank employee responsible for financial monitoring — Hanna Vareiivna Horbenko, is responsible for ensuring the effective functioning and continuous improvement of the internal bank financial monitoring system, including the management of the risks of legalization of criminal proceeds and terrorist financing, with unconditional compliance with the current legislation requirements. Powers of H.V. Horbenko are prolonged by decision of the Supervisory Board dated October 20, 2022, for three years — till March 16, 2026, inclusive.

All members of the Management Board meet the qualification requirements regarding business reputation and professional suitability, have significant managerial and professional experience, understanding of financial analysis and risk aspects of the Bank's work.

The Members of the Management Board have a proper understanding of the Bank's areas of activity for which they are responsible.

The collective suitability of the Bank's Management Board corresponds to the size, specifics of the Bank's activities, the nature and scope of banking and other financial services, the Bank's risk profile, the systemic importance of the Bank and the activities of the banking group that is a part of the Bank.

The organizational form of work of the Management Board, as a collegial body, is a meeting.

Within 2022, 49 meetings of the Bank's Management Board, where 48 regular meetings and 1 extraordinary meeting, were held.

The agenda of the Management Board meetings in 2022 included the following issues:

- Consideration of major events for coverage in weekly reports for the Bank's Supervisory Board;
- Making decisions regarding the Bank's main focuses – priorities on a monthly basis, the results of monthly, quarterly, half-yearly, annual financial results of the Bank's activities;
- Consideration of issues related to reduction of the Bank's expenses due to introduction of martial law;
- Implementation of the Bank's Budget;
- Development of strategies for each of the business verticals considering the martial law;
- Statuses and work with the Bank's employees due to their transfer to more "calm" territories, transfer of the Bank's critical personnel;
- Regarding the work of the Bank within the blackout period;
- The status of compliance with the requirements and restrictions established by the NBU for the period of martial law;
- Consideration of standard monthly and quarterly reports on risk management, regarding work with distressed assets (including reports on implementation of the Strategy and Operational Plan for the management of distressed assets), quarterly reports on compliance control, quarterly reports on client appeals and social engineering, periodic review of reports regarding the management of the Bank's information technologies;
- Monthly review and approval of the list of persons related to the Bank;
- Consideration of issues related to changes to the internal organizational structures of the Bank's units.

At the Bank's Management Board meetings:

- Operational (monthly, quarterly, annual) control of the results of the Bank's activities as a whole and business verticals (Retail, Corporate, Investment businesses) was carried out;
- The Bank's budget for 2023 was approved before submission to the Bank's Supervisory Board;
- The operational decisions on the Bank activities and the Bank's employees within the period of martial law were made;
- Enps project survey results were considered;
- The changes in the organizational structures of the Bank's units were approved, as well as Regulations regarding them were approved/agreed upon;
- The issues of changing the structure of the Retail business were considered;
- The issues of restoring the Bank's business units motivation systems effectiveness were considered;

- The decisions on writing off the cash balances and valuables in atms, branches, self-service software and technical complexes in the occupied territories and territories of hostilities were made;
- The list of the most critical employees of the Bank, the procedure for their relocation during the blackout period was approved;
- The decision to migrate the data center to the cloud environment was made;
- The new version of the Bank's Code of Corporate Ethics was coordinated;
- The report on implementation of the Bank's Anti-corruption program in 2021 was approved;
- The lists of the Bank's related persons for submission to the NBU were approved;
- The work on updating the existing and approving new regulatory documents of the Bank was carried out, outdated regulatory and instructional documents of the Bank's structural units that were found as a result of the bank-wide audit, was canceled;
- The lists of winners within the framework of the "Best Bank Employee of the Year" program was approved;
- The decisions on effective management of the Bank's branch network were approved, closure and suspension/resumption of activities of the Bank branches which were in the occupied territories was coordinated;
- The decisions to recognize the debt as bad and write it off at the expense of the formed reserve or from off-balance sheet accounts were made;
- The periodic reports on the state of implementation of the planned actions by the management regarding elimination of deficiencies found within the internal audit were considered;
- The decisions on other important issues of the Bank's activity attributed to the competence of the Management Board by the Charter, Regulations on FUIB JSC Management Board and legislation of Ukraine were made.

Appropriate decisions were made on all issues of the agenda.

The results of the evaluation of the overall activity of the Board in 2022, its structure and composition showed that the composition of the Bank's Management Board is balanced and covers all areas of the Bank's activity. The distribution of powers between the members of the Management Board is optimal. The Management Board effectively plans its activities. All members of the Management Board understand their powers and responsibilities and adhere to high professional and ethical standards within performance of their duties.

According to the conducted assessment of the business reputation of each member of the Management Board, no signs of the lack of an impeccable business reputation defined by the regulatory legal act of the NBU, as well as other factors that indicate a violation of the requirements of banking, financial, currency, tax, anti-corruption legislation, legislation on financial monitoring and other legislation, improper fulfillment of financial obligations, non-compliance of the Management Board member's activities with the standards of business practice and professional ethics were found. The Chairman and members of the Management Board have an impeccable business reputation, a sufficient level of qualification and professional suitability.

The activities of the Management Board in 2022 as a collegial body were effective and aimed at prompt decision-making to ensure the continuous operation of the bank during the martial law period.

The organizational structure of the Bank provides for the functioning of the following permanent committees of the Management Board:

- Project Committee;
- Technology Committee;
- Operational Risk Management Committee;
- Assets and Liabilities Management Committee;
- Financial Monitoring Committee;
- Ethics and Business Conduct Committee;
- Tariff and Commercial Committee;
- Non-Performing Asset Management Committee;
- Credit Council and Credit Committee.

Activities of the Project Committee in 2022

Within 2022, the Project Committee (hereinafter referred to as the "PC") functioned in the following composition:

- Serhii Pavlovych Chernenko, the PC Head, the Chairman of the Management Board;
- Serhii Borysovych Mahdych, the PC Member, the Deputy Chairman of the Board, who supervises the corporate business vertical;
- Artur Hermanovych Zahorodnykov, the PC Member, the Deputy Chairman of the Board;
- Sebastian Rubai, the PC Member, the Deputy Chairman of the Board;

- Natalia Feliksivna Kosenko, the PC Member, the Deputy Chairman of the Board;
- Kostiantyn Oleksandrovych Shkoliarenko, the PC Member, the Deputy Chairman of the Board – Finance Director;
- Tetiana Vasylivna Kostiuchenko, the PC Member, the Deputy Chairman of the Board;
- Fedot Yevhenovych Yeremenko, the PC Member, the Deputy Chairman of the Board (CRO);
- Leonid Pavlovych Skalozub, the PC Member, the Deputy Chairman of the Board;
- Andrii Borysovych Behunov, the PC Member, the Director of the Department of Information Technologies;
- Yulia Pavlivna Nikolaieva, the PC Member, the Director of the Department of Strategic Project and Process Management.

The personnel composition of the PC is determined in accordance with the Regulation "On Project Committee of FUIB JSC".

Within the scope of its activities, in 2022 the PC made decisions on issues of strategic management of changes in the Bank, including project portfolio management and change implementation process management, organization and control of the activities of cross-functional teams at all stages of implementation of changes in the Bank, starting with initiation and ending with control results

In 2022, the PC held 12 face-to-face meetings by direct presence.

The main decisions that were made by the PC within 2022:

- Implementation of 17 projects of the Bank was coordinated;
- The list of critical cmes and the list of those cmes on which the work is suspended was approved;
- A series of decisions on temporary suspension of 6 projects was made;
- The critical procurement for ACM (Euronet) - ATM Channel management project was made;
- Closing of 5 projects of the Bank was coordinated;
- 5 projects in the lean-project portfolio was approved;
- Closing of 2 projects in lean-project portfolio was coordinated;
- Initiation of 2 cmes was coordinated;
- Inclusion of 16 projects in project portfolio of 2023 was coordinated.

Activities of the Technology Committee in 2022.

During 2022, the Technological Committee (hereinafter referred to as the "TC") functioned in the following composition:

- Serhii Pavlovych Chernenko, the TC Head, the Chairman of the Management Board;
- Leonid Pavlovych Skalozub, the TC Member, the Deputy Chairman of the Board;
- Andrii Borysovych Behunov, the TC Member, the Director of the Department of Information Technologies;
- Kostiantyn Oleksandrovych Shkoliarenko, the TC Member, the Deputy Chairman of the Board - Finance Director;
- Yulia Pavlivna Nikolaieva, the TC Member, the Director of the Department of Strategic Project and Process Management.;
- Serhii Hryhorovych Hroma, the TC Member, the Head of the Information Security Department.

The personnel composition of the TC is determined in accordance with the Regulation "On the Technology Committee of FUIB JSC".

Within the framework of its activity, within 2022, the TC resolved issues related to coordination of technological solutions offered for implementation in the Bank's projects, decision-making on selection of developers of key elements of software and hardware complexes, coordination of changes in key elements of the IT architecture, consideration of information technology policies, introduction of significant technological changes in the Bank's projects.

In 2022, the Bank's Technology Committee held 6 face-to-face meetings.

The issues considered by the TC concerned:

- Replacement of the supplier of the personalization solution to the Bank's Processing Center;
- Approval of the counterparty for RKL project implementation;
- Consideration of the Bank's Data Centers development strategies;
- Platforms for Stronghold managing regulatory limits;
- Sharepoint-Online selection as a target system for migrating processes from sharepoint 2013;
- Replacement of the target model of the cash register Verifone M440 with LANE 8000;
- Replacement of the current distance learning system.

Activities of the Operational Risk Management Committee in 2022.

Within 2022, the Bank's Operational Risk Management Committee (hereinafter referred to as the "ORMC") worked in the following composition:

- Serhii Pavlovych Chernenko, the ORMC Head, the Chairman of the Management Board;
- Natalia Feliksivna Kosenko, the ORMC Member, the Deputy Chairman of the Board;
- Leonid Pavlovych Skalozub, the ORMC Member, the Deputy Chairman of the Board;
- Fedot Yevhenovych Yeremenko, the ORMC Member, the Deputy Chairman of the Board on Risk Management (CRO) with the right of veto;
- Mykola Mykolaiovych Dybko, the ORMC Member, the Director of the General Banking Risks Department;
- Within the period from January 01, 2022, till January 28, 2022, Anton Volodymyrovych Hurban, the ORMC Member, the Director of the Transaction Business Department;
- Within the period from February 09, 2022, Larysa Anatoliivna Serdiuk, the ORMC Member, the Acting Director of the Transaction Business Department;
- Serhii Hryhorovych Hroma, the ORMC Member, the Head of the Information Security Department of the Security Department;
- Volodymyr Ivanovych Zavhorodnii, the ORMC Member, the Head of the Department for Administrative Work with Personnel;
- Andrii Borysovych Behunov, the ORMC Member, the Director of the Department of Information Technologies;
- Serhii Borysovych Kudlai, the ORMC Member, the Head of the Operational Support Center;
- Oleksandr Serhiiovych Shcherbakha, the ORMC Member, the Director of the Department of Sales and Development of Retail Business;
- Anton Serhiiovych Stadnyk, the ORMC Member, the Director of the Investment Business Department;
- Lesia Oleksandrivna Nasiekan, the ORMC Member, the Director of the Legal Department;
- Olena Olehivna Poleshchuk, the ORMC Member, the Chief Accountant.

The head of the Compliance Control Office (CCO) with the right of veto and the Director of the Internal Audit Department with the right of an advisory vote must be present at the meeting of the ORMC.

The personnel composition of the ORMC is determined in accordance with the Regulation "On the Operational Risk Management Committee of FUIB JSC".

The ORMC is an integral part of the organizational structure of the Bank's risk management system and ensures the performance of certain functions and powers of operational risk management created for maximum optimization of the process of managing operational risk factors, rapid response to operational events, development and implementation of the most effective measures to minimize/eliminate the consequences of the implemented operational risk and cross-operational risks registered within the Operational Risk Management System.

Within the scope of the functions delegated by the Board, during 2022 the ORMC performed the role of the executive body of the Board in the following matters:

- Operational risk management (namely, information and legal risks);
- Evaluation of the bank's internal control system effectiveness;
- Ensuring the functioning of the corporate culture of operational risk management;
- Evaluations of the effectiveness of the system for ensuring continuous activity, the fraud risk management system, and the information security management system.

In 2022, 7 meetings of the ORMC through the direct presence of Committee members were held.

At the meetings of the ORMC, the following decisions were considered and made:

- Standard quarterly reports, namely:
  - reports on operational risk events registered in the reporting period;
  - reports on implementation of the decisions of the Committee and the ORMC Subcommittees;
  - the results of risk appetite monitoring and operational risk limits;
  - reports on the effectiveness of the Internal Control System: "Results of KCI (Key Control Indicator) Qquarterly Monitoring";
  - the reports on events registered in the reporting quarter within the System for Ensuring the Continuous Activity;
- The annual report of the Internal Control System regarding the assessment of the effectiveness of the Bank's Internal Control System by the second and third levels of control for 2021;
- The results of operational risk stress testing for 2022;

- The annual results of the КIP monitoring for 2021 and approval of the кips for 2022;
- Results of annual testing the BCP HO;
- The results of stress testing of operational risk events related to hostilities in Ukraine;
- The information security management system self-assessment results for 2021;
- The results of practical testing of the BCP DIHO Plan on continuous work with cash reserves in storage in the case of unforeseen circumstances and/or emergency situations (BCP DIHO Plan) in 2022.

Inter alia, the ORMC made decisions regarding the management of realized operational risk events, monitored the effectiveness of decisions made by the ORMC Subcommittees, and evaluated the effectiveness of functioning of:

- Information security management systems;
- Fraud risk management systems;
- Systems for ensuring continuous activity;
- Third-party risk management system;
- Internal control system.

The following Subcommittees worked at the ORMC during 2022:

- Subcommittee "Personnel";
- Subcommittee "Processes";
- Subcommittee "Systems";
- Subcommittee "External Factors";
- Subcommittee "Information Security".

The ORMC also approved changes to the composition of the Subcommittees.

Activities of the Bank's Assets and Liabilities Management Committee in 2022.

Within 2022, the Assets and Liabilities Management Committee (hereinafter referred to as the "ALMC") worked in the following composition:

- Serhii Pavlovych Chernenko, the Committee Head, the Chairman of the Bank's Management Board;
- Fedot Yevhenovych Yeremenko, the Committee Member, the Deputy Chairman of the Board on Risk Management (CRO);
- Serhii Borysovych Mahdych, the Committee Member, the Deputy Chairman of the Banks's Management Board;
- Artur Hermanovych Zahorodnykov, the Committee Member, the Deputy Chairman of the Bank's Management Board;
- Kostiantyn Oleksandrovych Shkoliarenko, the Committee Member, the Deputy Chairman of the Bank's Management Board – Finance Director;
- Sebastian Rubai, the Committee Member, the Deputy Chairman of the Banks' Management Board;
- Mykola Mykolaiovych Dybko, the Committee Member, the Director of the General Banking Risks Department;
- Anton Serhiiovych Stadnyk, the Committee Member, the Director of the Investment Business Department.

The personnel composition of the ALMC is determined in accordance with the Regulation "On the Assets and Liabilities Management Committee of FUIB JSC". When a person is appointed to the relevant position, this person automatically acquires the status of a Member of the ALMC with all the powers and duties according to the Regulations.

Within the scope of its activity, the ALMC supports and improves the quality of the processes of forming the Bank's strategy and business plan, ensuring implementation of the Bank's planned indicators by developing relevant policies, forming projects of management decisions and making them within its competence. Wherein, the management objects are the structure and scopes of banking operations (assets, liabilities and off-balance sheet items), their profitability and level of risks. The goals of the ALMC activities are to maximize the profit and value of the Bank's capital, to ensure the long-term efficient operation of the Bank, to minimize risks by directly making decisions on management of liquidity risks, interest and currency risks, market risks, and all risks at the level of aggregated indicators, ensuring the functioning of the process of optimizing the profitability ratio and riskiness of banking operations aimed at ensuring that the Bank receives an appropriate reward for accepting risk, by increasing income or reducing risk, or by increasing income accordingly for the level of risk accepted in cases where there is no correlation between the amount of remuneration and the level of risk.

Within 2022, the ALMC held 35 meetings, where 12 — regular meetings and 23 — extraordinary meetings. Meetings were held both by direct presence and absentee voting.

The main topics of the ALMC meetings (issues that were regularly discussed):

1. Analysis and forecast of the Bank's activity indicators:

- external regulations (NBU, Banking Group, and etc.);

- efficiency: spread and margin of the Bank.

2. Information from the Market and Operational Risks Department regarding the control of liquidity risks, currency risks, interest risks, trading risks and issuer risks:

- risk report;
- index of the state of the financial market of Ukraine;
- GAP-reports on liquidity and percentage gaps from factor analysis;
- concentration report;
- liquidity risk stress testing;
- interest rate risk stress testing;
- analysis of risk indicators of an increase in the probability of the Domestic government bonds issuer default.

3. Analysis and forecast of the Bank's monetary position:

- liquidity: analysis and forecast of liquidity position;
- offers for formation of assets and liabilities.

4. Interest policy:

- transfer rates;
- limits on growth standards.

Activities of the Financial Monitoring Committee in 2022

The Financial Monitoring Committee (hereinafter referred to as the "FM Committee") is a permanent collegial body of the Bank, whose activities are aimed at ensuring the functioning of the risk management system regarding legalization (laundering) of proceeds from crime, countering the terrorism financing and the financing of the proliferation of weapons of mass destruction in the Bank, and also to take appropriate precautionary measures to prevent, limit and/or reduce risks to an acceptable level.

Within 2022, the FM Committee worked in the following composition:

- Serhii Pavlovych Chernenko, the FM Committee Member, the Chairman of the Committee, the Chairman of the management Board;
- Serhii Borysovych Mahdych, the FM Committee Member, the Deputy Chairman of the Board;
- Sebastian Rubai, the FM Committee Member, the Deputy Chairman of the Board;
- Natalia Feliksivna Kosenko, the FM Committee Member, the Deputy Chairman of the Board;
- Leonid Pavlovych Skalozub, the FM Committee Member, the Deputy Chairman of the Board;
- Fedot Yevhenovych Yeremenko,the FM Committee Member, the Deputy Chairman of the Board on Risk Management (CRO);
- Vira Oleksandrivna Serdiuk, the FM Committee Member, the Head of the Compliance Control Department (CCO);
- Hanna Vareiivna Horbenko, the FM Committee Member, the Management Board Member, the Director of the Financial Monitoring Department, the Bank employee responsible for financial monitoring;
- Lesia Oleksandrivna Nasiekan, the FM Committee Member, the Director of the Legal Department;
- Hanna Volodymyrivna Mekh, the FM Committee Member with advisory voting right, the Director of the Internal Audit Department.

The personnel composition of the Committee is determined in accordance with the Regulation "On the Financial Monitoring Committee of FUIB JSC".

Within the scope of its activities, the Committee held 12 meetings both in person and by absentee voting.

At the meetings, decisions on the following issues were made:

- Consideration of the results of the analysis of financial transactions of clients, in respect of which suspicion arises and approval of precautionary measures in order to minimize the risks of legalization of proceeds from crime / terrorist financing;
- Consideration of issues resulting from the refusal of financial transactions and/or client service, including in the case of establishing an unacceptably high level of risk for the client;
- Consideration of problematic issues that arise during the identification and study of clients;
- Changes in the legislation on financial monitoring, measures that must be taken by a bank - a legal entity / branch of a foreign bank, and deadlines for updating the bank's internal documents on financial monitoring considering the specified changes;
- Consideration of the results of the analysis of introduction of new banking products and the related compliance risks of financial monitoring;

- Consideration of problematic issues that arise during the training of bank employees;
- Consideration of problematic issues related to the establishment of business relations and maintenance of pep;
- Consideration of other issues that arise during implementation of measures to prevent the legalization (laundering) of proceeds from crime, or the terrorist financing or the financing of the proliferation of weapons of mass destruction;
  - the status of tasks for automation of financial monitoring processes;
  - status of implementation of audit recommendations;
  - the results of the inspection by the Bank employee responsible for financial monitoring of the Bank's units in 2021.

Activities of the Ethics and Business Conduct Committee in 2022

Within 2022, the Ethics and Business Conduct Committee worked in the following composition:

- Tetiana Vasylivna Kostiuchenko, the Head of the Ethics and Business Conduct Committee, the Deputy Chairman of the Board of FUIB JSC;
- Serhii Pavlovych Chernenko, the Member of the Ethics and Business Conduct Committee, the Chairman of the Board of FUIB JSC;
- Serhii Borysovych Mahdych, the Member of the Ethics and Business Conduct Committee, the Deputy Chairman of the Board of FUIB JSC;
- Sebastian Rubai, the the Member of the Ethics and Business Conduct Committee, the Deputy Chairman of the Board of FUIB JSC;
- Leonid Pavlovych Skalozub, the Member of the Ethics and Business Conduct Committee, the Deputy Chairman of the Board of FUIB JSC;
- Vira Oleksandrivna Serdiuk, the Member of the Ethics and Business Conduct Committee, the Head of the Compliance Control Department of FUIB JSC;
- Hanna Oleksandrivna Duhadko, the Member of the Ethics and Business Conduct Committee, the Member of the Supervisory Board of FUIB JSC;
- Hanna Volodymyrivna Mekh, the Member of the Ethics and Business Conduct Committee, the Director of the Internal Audit Department of FUIB JSC;
- Marharyta Pavlivna Trembak, the Secretary of the Ethics and Business Conduct Committee, the Head of the Personnel Administration Department of the Office for Administrative Work with Personnel of the Personnel Department of FUIB JSC.

The personnel of the Ethics and Business Conduct Committee is determined in accordance with the Regulations "On the Ethics and Business Conduct Committee of FUIB JSC".

Within the scope of its activity, within 2022, the Ethics and Business Conduct Committee of the Bank carried out the settlement of negative factors of compliance risk, risks related to corporate ethics and business behavior, reputational risks, fraud risks, as well as other negative factors related to the activity of the Bank [personnel, ensured the minimization of the consequences of implementation of such negative factors, made decisions to prevent their recurrence.

In 2022, the Ethics and Business Conduct Committee of the Bank held 1 meeting in the form of joint presence on the following issues:

- Statistics of appeals to the SKM Helpline on FUIB JSC activity;
- The report on the work of the ORMC Subcommittee "Personnel", namely:
  - statistics of violations of labor discipline by employees of the Bank;
  - disciplinary sanctions (including termination of employment at the Bank's initiative) and other measures applied to violators.

Activities of the Tariff and Commercial Committee in 2022

Within 2022, the Tariff and Commercial Committee (hereinafter referred to as the "TCC") worked in the following composition:

- Serhii Pavlovych Chernenko, the TCC Head, the Chairman of the Management Board;
- Kostiantyn Oleksandrovych Shkoliarenko, the TCC Member, the Deputy Chairman of the Board – Finance Director;

At the absentee voting or absence of the Deputy Chairman of the Board - the Bank's Financial Director, powers were delegated to the Head of the Assets and Liabilities Management Department Valerii Anatoliiovych Ovchinnikov;

- Serhii Borysovych Mahdych, the TCC Member, the Deputy Chairman of the Board;
- Sebastian Rubai, the TCC Member, the Deputy Chairman of the Board;

- Artur Hermanovych Zahorodnykov, the TCC Member, the Deputy Chairman of the Board;
- Ksenia Serhiivna Sikorska, the TCC Member, the Director of the Marketing Department.

The personnel composition of the TCC is determined in accordance with the "Regulations on the Tariff and Commercial Committee".

As part of its activities, in 2022, the TCC managed the Bank's commercial activities, product and client portfolio, ensured control of the Bank's market position and realization of market opportunities for the Bank's strategic development.

Within 2022, 81 issues were considered by the TCC.

The main issues considered by the Committee concerned:

- Changes in tariff packages for servicing individuals, setting price parameters for new retail business products;
- Changes in tariff packages for the service of legal entities;
- Revision of interest rates for corporate clients from the "stable balance" and "profit account" products;
- Approval of the authority to set individual client rates and tariffs of the cb;
- Changes in powers regarding the retail business deposits;
- Changes in tariffs for cash collection services and transportation of currency values;
- Making changes to the parameters of deposit products for individuals – "free", "income" deposits;
- Approval of the standard of the current product of the cb "online blocking for the overnight term";
- Approval of the parameters of the rb deposit product – "premium" deposit;
- Addition of new tariffs to the basic edition of fuib tariffs on transactions with payment cards for partner banks;
- Changes to the current edition of annex no.4 to k comprehensive banking service contract, new product — credit card;
- Issue – making changes to the basic tariffs "fuib tariffs for servicing corporate clients in trade acquiring";
- Accepting payments from the population without commission to a special account of the nbu for collecting funds for the support of the armed forces of ukraine. "brave hryvnia" action;
- Service of military bonds;
- Changes to the pricing process under the "affordable loans 5-7-9%" program (inclusion of vkk clients);
- Approval of the parameters of the rb deposit product — "special" deposit;
- Accepting payments without commission to the account of charitable funds for fundraising for the armed forces of ukraine;
- Approval of the parameters of the rb deposit product — "currency" deposit;
- Cancellation of the commission on the CB loans that are repaid early and secured by state guarantees.

Activities of the Non-performing Assets Management Committee in 2022

The Board Non-performing Assets Management Committee (hereinafter referred to as the "NPA Committee") was created with the aim of effective and efficient functioning of the non-performing asset management business process in FUIB JSC.

Within 2022, the NPA Committee worked in the following composition:

- Serhii Pavlovych Chernenko, the NPA Committee Member, the Chairman of the Bank's Management Board;
- Fedot Yevhenovych Yeremenko, the NPA Committee Head, the Deputy Chairman of the Board on Risk Management (CRO);
- Kostiantyn Oleksandrovych Shkoliarenko, the NPA Committee Member, the Deputy Chairman of the Board - Finance Director of the Bank;
- Leonid Pavlovych Skalozub, the NPA Committee Member, the Deputy Chairman of the Board of the Bank.

Two experts with advisory voting rights appointed by the Bank's Supervisory Board also participate in the work of the NPA Committee.

According to the decision of the Supervisory Board dated February 27, 2020, O.M. Popov and H.O. Duhadko were presented for participation in the Non-performing Asset Management Committee as the experts.

Within the scope of its activities, the NRA Committee makes decisions within the framework of the powers delegated by the Bank's Management Board regarding the settlement of problem assets transferred to the work of the NPA units, monitors the implementation of the operational plan and strategy for the management of problem assets, makes decisions on the settlement of potentially problem assets that have not been transferred to the work of the NPA units, and also supervises the adequate assessment of the level of credit risk and the amount of reserves for all problem assets, without exception, which are within the competence of the Bank's credit authorities.

Within 2022, 54 meetings of the NPA Committee were held both by direct presence and by absentee voting.

The main issues discussed at the meetings:

- Approval of reporting on the implementation of the Problem Asset (PA) Management Strategy and implementation of the PA Operational Plan;
- Debtors/contractors debt settlement;
- Making decisions on management of seized property, including its sale;
- Making decisions about the management of non-performing problem assets.

Activities of the Bank's Credit Council in 2022

The Credit Council was created with the aim of preventing violations of risk appetite indicators and risk limits when implementing the Bank's business plan and achieving the set strategic goals in terms of lending.

Within 2022, the Credit Council (CC) worked in the following composition:

- Serhii Pavlovych Chernenko, the Chairman of the Bank's Management Board, the Chairman of the Credit Council;
- Serhii Borysovych Mahdych – the Deputy Chairman of the Bank's Board, the Member of the Credit Council;
- Fedot Yevhenovych Yeremenko, the Deputy Chairman of the Bank's Board; the Member of the Credit Council;
- Leonid Pavlovych Skalozub, the Deputy Chairman of the Banks' Board, the Member of the Credit Council;
- Sebastian Rubai, the Deputy Chairman of the Bank's Board, the Member of the Credit Council.

The personnel of the CC is determined in accordance with the Regulation "On the Credit Council and the Credit Committee pf FUIB JSC", according to which experts with the right of advisory vote (hereinafter referred to as the "experts") appointed by the Bank's Supervisory Board can also participate in the meeting of the Credit Council.

Within 2022, O.M. Popov and H.O. Duhadko were the experts.

Within 2022, 293 meetings of the CC were held both by direct presence and by absentee voting.

Description of the main issues considered/resolved:

- Approval of new credit projects for borrowers;
- Making changes to client financing conditions;
- Consideration of annual reviews of current credit agreements;
- Discussion of strategies for cooperation with clients;
- Approval of changes to product standards;
- Accreditation of insurance companies;
- Establishment/extension/change of limits for interbank transactions;
- Setting limits per debtor for factoring and trade financing operations;
- Coordination of changes to internal regulations on collegial bodies and delegation of decision-making powers;
- Consideration of reports on the quality of the credit portfolio.

In their activities, the committees of the Bank's Management Board are guided by the laws of Ukraine "On Banks and Banking Activities", "On Joint-Stock Companies", other laws and regulatory legal acts of Ukraine, regulatory legal acts of the National Bank of Ukraine, the Bank's Charter, decisions of the General Meeting, as well as the Regulations on the relevant committee.

In 2022, there were no cases of imposition of the right of veto on implementation of the decisions of the Board's committees.

10) Information on the facts of violations of internal rules by members of the Supervisory Board and the Bank's executive body, which resulted in damage to the Bank or the Bank's clients

In 2022, there were no facts of violation of internal rules by the members of the Supervisory Board and the Bank's Management Board, which could lead to damage to the Bank or the Bank's clients.

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

Within 2022, the state authorities applied influence measures to the Bank in the form of fines, which were fully satisfied (paid), namely:

No.	Number and date of the decision imposing the fine	The body that imposed the fine	Type of recovery	Performance information	Description of the offense for which a fine has been imposed
1.	Tax notification-decision No. 616/Ж10/31-00-04-03-01 dated October 17, 2022.	Central interregional administration of the State Tax Service for work with large tax payers	The fine of UAH 266.67	was paid on October 26, 2022.	Violation of the deadlines specified in Art. 201 of the Tax Code of Ukraine, registration of tax invoices in the Unified Register of Tax Invoices
2.	Decision of the committee on supervision and regulation of bank activities, supervision (oversite) of payment systems No.20/1756-рк dated December 19, 2022.	The National Bank of Ukraine	Fine of UAH 478,059.50	is paid on December 21, 2022	Violation of the requirements regarding the prohibition of premature termination of deposit contracts with persons related to the bank, specified by the Resolution of the Board of the National Bank of Ukraine No.23 dated February 25, 2022 "On Some Issues of the Activity of Ukrainian Banks and Banking Groups"
3.	No.3 dated January 13, 2022	The National Bank of Ukraine	The fine of UAH 170	was paid on January 24, 2022.	Non-compliance with cl. 58 of Instruction No.103 in the part of sorting banknotes according to quality criteria (14.91% negotiable banknotes from the total number of worn banknotes)
4.	No.8 dated February 01, 2022.	The National Bank of Ukraine	The fine of UAH 340	was paid on February 09, 2022.	Non-compliance with cl. 58 of Instruction No.103 in the part of sorting banknotes according to quality criteria (29.52% negotiable banknotes from the total number of worn banknotes)
5.	No.9 dated February 01, 2022.	The National Bank of Ukraine	The fine of UAH 340	was paid on February 09, 2022.	Non-compliance with cl. 58 of Instruction No.103 in the part of sorting banknotes according to quality criteria (21.46% negotiable banknotes from the total number of worn banknotes)
6.	No.616/ж10/31-00-04-03-01-14 dated October 17, 2022.	Central interregional administration of the State Tax Service for work with large tax payers	The fine of UAH 266.67	was paid on October 26, 2022.	Violation of the deadlines for registration of tax invoices/calculations of adjustments to the tax returns in the Unified Register of Tax Invoices specified in Art. 201 of the Tax Code of Ukraine and according to cl. 120^1.1 of Art. 120^1 of the Tax Code of Ukraine.

Within 2022, the state authorities applied measures of influence to the Chairman of the Bank's Management Board in the form of fines, which were fully satisfied (paid), namely:

1. In January of 2022, the Bank received the Resolution of the State Service of Ukraine on Transport Safety (series ВМ, No.00005776 dated January 04, 2022) regarding bringing to administrative responsibility and imposing an administrative penalty in the form of a fine in the amount UAH 17,000 for violation of the Road Traffic Rules of Ukraine in the part of exceeding the norm of load on a single axle of the vehicle. The Bank is contesting this charge in court (Shevchnkivskyi District Court of Kyiv, case No.761/1375/22), no decision has been made on the case, the fine was not paid.
2. In December of 2022, the Bank paid the fine of UAH 340 according to the Resolution of the Department of Transport Infrastructure of the executive body of Kyiv City Council (series 1КІ No. 0000897423 dated November 23, 2021) for violating the Road Traffic Rules of Ukraine in terms of car parking requirements. In accordance with the Resolution, an administrative penalty was applied to S.P. Chernenko in the form of fine of UAH 680,00 kop.

The amount of fines paid is insignificant and did not affect the indicators of the Bank's financial statements.

No other measures of influence were applied to the Bank during 2022.

No measures of influence were applied to members of the Supervisory Board and other members of the Bank's Management Board.

12) Information on the annual remuneration of members of the Supervisory Board and the Bank's executive body

The Members of the Bank's Supervisory Board perform their functions and receive remuneration in accordance with the terms of the civil law contracts concluded with each member of the Supervisory Board.

The procedure for payment of remuneration to members of the Supervisory Board is regulated by the "Regulations on the Remuneration of FUIB JSC Supervisory Board Members" which was approved in an updated version by the General Meeting of Shareholders on November 25, 2021.

Detailed information on the amount of remuneration paid to the members of the Supervisory Board in 2022 is contained in the report on the remuneration of the members of the Supervisory Board, freely available on the official website of the Bank at the link: https://about.pumb.ua/ru/management/supervisory-board.

Members of the Bank's Management Board receive remuneration according to employment agreements approved by the decisions of the Supervisory Board. The procedure for payment of remuneration to members of the Bank's Management Board is also regulated by the "Regulations on the Remuneration of FUIB JSC Management Board Members" which was approved in the updated version by the decision of the Supervisory Board dated February 18, 2021.

Detailed information on the amount of remuneration paid to the members of the Management Board in 2022 is contained in the report on the remuneration of the members of the Management Board, freely available on the official website of the Bank at the link: https://about.pumb.ua/ru/management/head.

13) Information on significant risk factors affecting the Bank's activities during 2022

During the implementation of its activities, the Bank is faced with various risks that both positively and negatively affect its sustainability.

In 2022, the key risk factor that negatively affected the activities of the Bank and the banking system as a whole was the beginning of Russian full-scale *invasion* in Ukraine and martial law introduced on February 24, 2022. The hostilities affected all kinds of risks and led to significant losses.

1. Liquidity risk — the probability of losses or additional losses and failure to receive planned revenues as a result of the bank's inability to provide financing for the growth of assets and/or the fulfillment of its obligations in due time. The Bank determines the adequacy of the internal level of liquidity using two indicators VLA1 — the standard of primary liquidity, VLA2 — the standard of secondary liquidity. Liquidity adequacy control according to VLA1 and VLA2 standards is performed daily. During 2022, the standards of VLA1 and VLA2 were in the green zone of risk tolerance.

Also, to control liquidity, the Bank uses the standards established by the NBU:

- LCR — liquidity coverage ratio;
- NSFR — long-term liquidity standard;
- The NBU mandatory reserve standard.

Liquidity norms in accordance with the requirements of the NBU were fulfilled during 2022 with a margin. In addition, the Bank uses a three-month GAP-liquidity to control liquidity risk.

Factors affecting the liquidity risk:

1) Hostilities;
2) Administrative restrictions of the nbu that were introduced against the background of the war;
3) The high level of inflation;
4) Ukrainian budget deficit (up to UAH 1,391 bln excluding grants).

Throughout 2022, the Bank's liquidity was maintained at the sufficient level. Liquidity risk indicators grew throughout the entire period from February 24, 2022. With the beginning of the war, the NBU decided to support Ukrainian banks to prevent bankruptcy due to the outflow of client funds. Analysis of own statistics of the outflow of the stable part of client balances shows that FUIB received client outflows smaller than the outflows during the 2014-2015 crisis.

The liquidity situation was negatively affected by the impossibility of refinancing the Domestic government bonds by the NBU and the closure of the secondary market of Domestic government bonds at the beginning of the war. However, starting from August of 2022, the secondary market became operational, which made it possible to start selling Domestic government bonds from the portfolio, converting Domestic government bonds into primary liquidity.

In general, the liquidity risk is insignificant.

2. The interest rate risk of the bank book — the probability of losses or additional losses or failure to receive planned income as a result of the impact of adverse changes in interest rates on the bank book. The interest rate risk of the bank book affects the economic value of the bank's capital and the bank's net interest income. The bank controls the interest rate risk of the bank book using two risk indicators:

- NII is the maximum decline in the bank's net interest income over the next 12 months.
- EVE is the maximum fall in the economic value of the bank's capital.

During 2021, the value of NII and EVE was in the green zone of risk tolerance with a significant margin.

Since the beginning of the war, the NBU began to finance the state budget by buying military Domestic government bonds, which was essentially a money issue. Along with the fall in GDP, this caused an increase in inflation, which reached a level of 26.6% as of the date of the report, according to the NBU. Considering the sharp increase in inflation, the NBU increased the discount rate from 10% to 25% on June 3, 2022. Accordingly, the NBU interest rate corridor: 23% — the interest rate for deposit certificates of the NBU, 27% — the placement rate for refinancing the loans. In essence, the risk-free rate for the hryvnia instantly became the higher rate for the main types of assets. This affected the level of interest rate risk under the standard scenario from UAH 13.6 mln as of January 01, 2022, till UAH 126 mln as of January 01, 2023. The level of risk is significant.

3. Price risk — the interest rate risk of the trading book that arises due to adverse changes in market interest rates affecting the value of a debt security or other fixed-income instrument, the value of a derivative financial instrument (derivative), the base variable for which is the market interest rate, contained in the bank's trading book. When calculating the price risk, the total volume of the Domestic government bonds in the Bank's portfolio is taken as the bank's trading book, and the scenario of full realization of the Domestic government bonds portfolio is considered to cover the liquidity deficit.

During 2022, the price risk indicator increased significantly starting from August after the opening of the secondary market of the Domestic government bonds. The yield on the sale of hryvnia Domestic government bonds on the secondary and primary markets increased, which caused an increase in the fair value of the Domestic government bonds in the Bank's portfolio. The level of risk is significant.

4. The currency risk arising from adverse fluctuations in foreign exchange rates affecting assets, liabilities and off-balance sheet positions contained in the Bank's trading and banking books. It is defined as a percentage of the bank's capital of the value at risk calculated by the VaR method for:

- maximum open currency position;
- stress assessment based on the historical scenario in the period from 2014 to 2015;
- confidence level of 99%, calculation period of 10 days, calculation horizon of 250 days. The limit value is set in general for all currencies.

At the beginning of the war, the NBU fixed the official exchange rate of the hryvnia to the US dollar at the level of UAH 29. Later, in July 2022, the exchange rate was increased to the level of UAH 36. Wherein, the NBU allowed the Banks not to include in the calculation of the open currency position the formed reserves to cover the credit risk recording their level as of July 21, 2022. After analyzing the dynamics of the currency exchange rate, the Bank's experts came to the conclusion that during the 2014-2015 crisis, more significant one-day fluctuations of the dollar-hryvnia exchange rate were obtained than during 2022, therefore, the Bank continues to use the 2014-2015 scenario to calculate currency risk. Currency risk is calculated for an open currency position in accordance with the requirements of the NBU (reserves formed after July 21, 2022, are not considered). From the point of view of managing the level of the open currency position, the level of currency risk is moderate, but we have significant expectations of devaluation of the national currency against major foreign currencies.

5. Domestic government bonds issuer default risk — at the beginning of 2022 the Bank monitored the assessment of the increase in the Domestic government bonds issuer default risk via quotation of 5-year CDS of Ukraine, and directly the calculation and reflection in the balance sheet of the Domestic government bonds issuer default risk — via reserves of the IFRS for PD = 1.79% according to the report of Fitch and LGD = 48% according to the report of Moody's for the rating of Ukraine at B level.

Since the beginning of the war with the RF, quotations of 5-year CDS of Ukraine have increased to 100%, and then quotations were generally suspended, which caused the Bank to abandon the CDS instrument. AS of October 10, 2022, the Bank when calculating the IFRS reserves for active transactions with Domestic government bonds moved to PD and LGD from Moody's for CCC rating, which increased the level of reservation in 2.6 times.

During 2022, the Government of Ukraine did not allow cases of non-fulfillment of obligations under the Domestic government bonds. G7 countries, IMF, the World Bank and other non-governmental financial organizations provided financial support to Ukraine by financing budget deficits.

Currently, based on these facts, the Bank considers the risk of the Domestic government bonds issuer default to be moderate and controlled.

6. Credit risk of financial institutions — the probability of losses or additional losses or failure to receive planned income as a result of non-fulfillment by the debtor bank/counterparty of the obligations assumed in accordance with the terms of the contract. The main exposure under risk consists of balances on the accounts of correspondent banks of non-residents that have an investment class. The impact of Ukraine's war with the Russian Federation on the default rate of correspondent banks was insignificant, so during 2022 the indicator was in the green zone of risk tolerance. The level of risk is moderate.

14) Information on the availability of the Bank's Risk Management System and its key characteristics

The risk management and capital adequacy system is part of the Bank's overall corporate management system and is aimed at ensuring the Bank's stable development within the framework of the Bank's Development Strategy. Within determination of the Risk Management Strategy and the drafting the business-plan of FUIB JSC development, the Bank's Supervisory Board considers the indicators of risk appetite.

The main goal of the effective risk management system of the Bank — provision of an effective process of managing the structure and capital adequacy, which is a guarantee of the Bank's achievement of tactical and strategic goals with the unconditional observance of internal and external restrictions in terms of the structure and capital adequacy under normal business conditions and during a crisis.

Strategic goals of risk management:

- Ensuring the sustainable development of the Bank within the framework of the implementation of its business development strategy;
- Ensuring and protecting the interests of shareholders, depositors, creditors, clients and other persons interested in the Bank's sustainable operation, so that the risks accepted by the Bank do not pose a threat to the existence of the Bank;
- Strengthening the Bank's competitive advantages as a result of strategic planning considering the level of accepted risks, increasing the effectiveness of risk management and increasing the Bank's market value, preserving the Bank's reliability while expanding the product line;
- Growth of investors' confidence due to creation of a transparent risk management system, created by a corporate management system with constant control by the NBU and other state control bodies.

The Bank implements a strategy of both preventive and subsequent exposure to risks, using the entire range of available risk reduction tools, both at the portfolio level and at the level of individual contracts. Special attention is paid to improvement of the risk management system, capital adequacy and liquidity as potential sources of loss coverage.

Significant risks inherent in the activity of FUIB JSC:

1) credit risk considering the impact of climate risks;
2) liquidity risk;
3) interest rate risk of the bank book;
4) market risks (currency, price and risk of the Domestic government bonds issuer default);
5) operational risk considering the impact of climate risks;
6) compliance risk (including the risk of money laundering/terrorist financing - the AML/FT risk of the Bank).

The results of the Bank's activities considering the risks and the effective risk management system at the Bank, are evaluated by the Supervisory Board on an annual basis. The Supervisory Board annually approves the Risk Appetite Statement.

The Bank's Risk Management System (RMS) is a system for ensuring timely and adequate identification of risks, qualitative and quantitative assessment, control and monitoring of risks, as well as leveling the consequences of risk events. The RMS is integrated into the entire vertical of the Bank's organizational structure and all areas of the Bank's activity, allowing timely identification and effective management of various types of risks.

Risk management is based on the following **principles:**

- **Adequacy and effectiveness of mitigation measures.** Financing measures to minimize risks, economic stimulation of their reduction.
- **Intelligibility.** Clarity of risk management policies and mechanisms, consolidation of responsibilities and duties of all RMS subjects/participants.
- **Awareness of risk.** When making a decision to perform the transaction, it is mandatory to analyze potential risks, and after its implementation — correct accounting of related risks and their further regular monitoring.
- **Independence of the risk management function.** In order to prevent a conflict of interests, the Bank applies the principle of independence of any decision to accept risk from risk assessment and control over it.

- **Risk level control.** The Bank's management, the collegial bodies of the Bank receive information on the accepted risk levels and on the facts of violations of the established risk management procedures, limits, and restrictions on an ongoing basis.
- **Provision of "three levels of control".** In the process of carrying out risk management activities, the involvement of all structural units of the Bank in the assessment, acceptance and control of risks is ensured:
  - Acceptance of risks (1st level of protection): structural units of the Bank that directly prepare and carry out the transaction, are involved in the process of identification, assessment and monitoring of risks, and fulfill the requirements of internal regulatory documents in terms of risk management, and also take into account the level of risk when preparing the operation;
  - Risk management (2nd level of control): Risk management (DRKK, DRMMB, DRR, DZR, URZM, URMK) and the CCD responsible for risk management, develops risk management mechanisms, methodology, assesses and monitors the level of risks, prepares risk reports, carries out risk accounting, calculates the amount of requirements for total capital;
  - Internal audit (3rd level of control): performs an independent assessment of the quality of the current risk management processes, identifies violations and makes offers for improving the risk management system.
- **Management of the Bank's activities considering the accepted risk.** The Bank monitors capital adequacy and executes capital planning based on the Bank's Development Strategy.
- **Limiting the level of accepted risks.** Determination of risk appetite by the Supervisory Board and its translation into the system of limits and restrictions allows to ensure the accepted level of risks for aggregated positions, transparent division of the general risk limit by areas of the Bank's activity. The RMS provides control over implementation of the Bank's risk appetite and limits.
- **Improvement of the risk management system.** The Bank's risk management system corresponds to the level of development of the Bank's transactions, as well as external conditions, innovations in global risk management practice.
- **Efficiency —** ensuring an objective assessment of the size of risks and the completeness of risk management measures with optimal use of financial resources, personnel and information systems for risk management.
- **Timeliness —** ensuring timely (at an early stage) detection, measurement, monitoring, control, reporting and mitigation of all types of risks at all organizational levels.
- **Structuredness —** a clear distribution of functions, duties and powers for risk management between all structural units and employees of the Bank, and their responsibilities in accordance with such distribution.
- **Separation of duties** (separation of the control function from the Bank's transactions) — avoiding a situation in which the same person carries out the Bank transactions and performs control functions.
- **Comprehensiveness** — covering all types of activities of the Bank at all organizational levels, in all its structural units, assessing the mutual impact of risks.
- **Proportionality —** compliance of the risk management system with the Bank's business model, its systemic importance, as well as the level of complexity of operations carried out by the Bank.
- **Independence —** freedom from circumstances that pose a threat to the impartial performance by the risk management unit and the compliance control department of their functions.
- **Confidentiality —** restricting access to information that must be protected from unauthorized access.
- **Transparency —** publication by the Bank of information on the risk management system and risk profile.

The risk profile of the direction depends on the following characteristics of FUIB JSC activity:

- Universality of banking services;
- Service for all categories of clients: large corporate business, representatives of medium and small businesses, individuals (including individuals of the vip segment), other financial institutions;
- Financing of the main activities of the bank is carried out both at the expense of own capital and at the expense of borrowed funds. The bank can raise funds from international and national capital markets by obtaining financial loans, placing bond loans, issuing other securities and in other forms.
- The main source of income is lending to all client segments.

In order to maintain an **effective risk management process** on an ongoing basis:

- Information is exchanged between management bodies and structural units on issues related to the detection, identification, assessment of risks and their control;
- There is a system of distribution of powers and responsibilities between management bodies, units and employees regarding the implementation of the basic principles of risk management;

- A regular risk identification procedure is carried out;
- Employees responsible for managing certain types of risks are appointed;
- Models for the purposes of quantitative assessment and comprehensive accounting of risks are developed;
- Measures aimed at reducing risks are taken;
- An analysis of sensitivity to individual risk factors that are considered in the models used for risk assessment is carried out;
- Stress testing of capital adequacy and liquidity is conducted regularly (at least once a quarter);
- A system of management reporting which is sent to management bodies, including on issues related to the detection, identification, assessment of risks and their control, is functioning;
- There are the board committees: the credit council, the operational risk management committee, the assets and liabilities management committee, the ethics and business conduct committee;
- The internal control system (ics) is created;
- The early warning system (ews) that allows timely identification and response to an increase in the level of credit risk functions, a system of annual review of client lending conditions is implemented;
- Plans for restoring financial stability and plans for attracting additional sources of resources are developed.

Procedure for arrangement of the risk management process:

- Classification and identification of risks inherent in the Bank's activities;
- Establishment of the order and terms of performance checks of the risk management system and internal control systems;
- Definition of the main methodological principles and approaches of risk identification, management assessment and monitoring;
- Establishing the order and terms of informing the Bank's management bodies (Supervisory Board, Management Board), officials and structural units about the risks, their level and the results of risk management;
- Determination of the list of measures used by the Bank to ensure the confidentiality of risk information, including the confidentiality of risk reports;
- Establishing the periodicity of stress testing, as well as the requirements for the scenarios used for such testing.

In order to ensure the stable and effective functioning of the entire risk management system, the Bank takes measures to develop **a risk management culture**, the main tasks of which are as follows:

- Acquisition of knowledge and skills in the field of risk management through systematic (regular remote) training by Bank employees;
- Correct use of risk management tools by managers and employees in daily activities;
- Formation of employees' skills on correct and timely use of risk management tools;
- Open and active communications within the Bank regarding the values and principles of the risk management culture.

In order to provide compliance by both the Bank's managers and other employees of the Bank's risk management culture, FUIB JSC management create the necessary atmosphere (tone at the top) by:

1) Determination and observance of corporate values, as well as supervision of observance of such values (approval of the Corporate Ethics Code and control over its implementation by all employees);
2) Ensuring understanding by both the Bank's managers and other employees of their role during risk management to achieve the Bank's goals, as well as responsibility for violation of the risk appetite level (training and testing of knowledge regarding the RMS and the ICS);
3) Promotion of risk awareness by providing systematic information to all the Bank's units regarding strategy, policy, risk management procedures and encouraging free exchange of information, as well as critical assessment of the Bank's acceptance of risks;
4) Receiving confirmation that managers and other employees of the Bank are informed about disciplinary sanctions or other measures that will be applied to them in case of unacceptable behavior/violations in activity.

The existing risk management system evolves along with the development of the Bank and is based, inter alia, on the experience of overcoming major systemic crises of 1999, 2004, 2008 and 2014. At the current stage, the Bank has formed a mature system of risk management, which allows to effectively level both current and strategic challenges. The built risk management system of the Bank meets the requirements of the NBU that are regulated by Resolution of the NBU No.64 dated June 11, 2018 "On Approval of the Regulation on Arrangement of the Risk Management System in Ukrainian Banks and Banking Groups".

15) Information on the performance results of the Internal Control System during the year and its key characteristics

The Bank's strategic tasks in terms of creating an internal control system are as follows:

- Transition to management of banking processes;
- Creation of a system that ensures and controls the process of compiling and providing reliable, complete, timely financial, statistical and other reporting;
- Anti-fraud provision;
- Compliance with legislative and regulatory acts, standards and internal documents of the bank;
- Creation of an internal control system in accordance with coso principles.

The main purpose of the Internal Control System (ICS) is to provide the Bank's management with a reasonable guarantee of achievement of the Bank's general goals and objectives, increase the level of internal control organization, the effectiveness of functioning of internal control and improve the effectiveness of the performed tasks, and ensure the stability, security and effectiveness of the Bank's transactions and processes.

The goals of implementing the internal control system (ICS) in FUIB:

- Ensuring the effectiveness of operations, protection against potential errors, violations, losses, damages in the Bank's activities;
- Ensuring the functioning of a comprehensive, adequate and effective risk management system;
- Provision of adequate, comprehensive, complete, reliable, accessible, timely information to users (interested units) for making appropriate management decisions;
- Reliability, completeness, objectivity and timeliness of preparation and provision of financial, statistical and other reporting to internal users, shareholders, Clients, counterparties and/or state regulatory bodies;
- Timeliness and reliability of the reflection in the accounting of the Bank's transactions;
- Compliance (monitoring the Bank's compliance with the requirements of legislation, regulatory acts, market standards, rules of fair competition, rules of corporate ethics, internal bank documents, as well as procedures for resolving conflict of interest situations;
- Effective personnel management;
- Implementation of target operating models of processes with a sufficient level of automation and presence of the required number of controls in order to prevent and/or minimize implementation of potential risks identified as significant ones for the Bank;
- Preventing the Bank from engaging in illegal financial transactions, including preventing the Bank's Clients (residents and non-residents) from conducting illegal currency transactions, preventing and detecting financial transactions related to the legalization of proceeds from crimes and the terrorist financing.

<u>The Bank ensures the functioning of the internal control system by:</u>

- Monitoring by the Bank's management of compliance with the legislation of Ukraine and the Bank's internal documents;
- Management of conflict of interest situations;
- Distribution of responsibilities within Bank's activities implementation;
- Implementation, ensuring functioning and control over the risk management system effectiveness;
- Control over information security and information exchange;
- Implementation of internal control procedures;
- Conducting the internal control system regular monitoring;
- Implementation of internal audit procedures.

<u>Subjects of the Bank's internal control system areas follows:</u>

- The Supervisory Board and its committees (the Risk Management Committee, the Audit Committee and the Remuneration and Appointments Committee, and etc.);
- The Management Board;
- collegial bodies of the Bank's Management Board (the CC, the ORMC, the ALMC, and etc.).
- The Internal Audit Department;
- The CRO and risk management units (DRKK, DRR, DRMMB, DZR, URZM, URMK);
- The CCO and compliance control department – CCD;
- Business units and support units and their managers, as well as all employees who carry out internal control in accordance with the powers defined by the Bank's internal documents and job instructions.

The Bank's internal control system is implemented at **3 levels:**

1) Business units and support units are on **the first level.** They are the owners of all risks (especially operational and compliance risks) arising in their field of activity. These units are responsible for identifying and assessing risks, taking management measures and reporting on such risks.
2) The risk management units and the Compliance Control Department are at **the second level.**
3) The Internal Audit Department is at **the third level**.

The assessment of the effectiveness of the internal control system is provided by the internal audit directly to the Supervisory Board and the Management Board based on the results of the audits considering the approved internal audit procedures.

Monitoring of the ICS is carried out on the basis of the following reports:

- Annual report of the IAD is the 3rd line of ICS protection: assessment of the ICS effectiveness in the Bank as a whole.
- Quarterly report of the DZR and CCD is the 2nd line of ICS protection: monitoring the control procedures effectiveness (monitoring of key control indicators).

FUIB JSC Internal Control System is based on 5 main principles (components) and, accordingly, the COSO principles:

1. Control environment:

1.1. Demonstration of duties in relation to ethical values (Corporate Code and development of corporate culture);

1.2. Responsibility for implementation of control functions (consolidation of control functions in job instructions, regulatory documents, administrative documents of the Bank);

1.3. Clearly defined organizational structure, powers and responsibilities (a component of Corporate Governance);

1.4. Responsibilities are distributed according to competence;

1.5. Responsibility for results is established at the level of the entire Bank.

2. Risk management:

2.1. Risk identification and monitoring;

2.2. Identification, registration and assessment of risks;

2.3. Assessment of fraud risks in processes;

2.4. Identification and assessment of significant changes;

3. Control activity:

3.1. Control processes are clearly defined and selected for implementation;

3.2. Clearly defined general controls over technologies (within the ISMS and the RMSM);

3.3. Control activities are formalized in procedures

4. Information and communication:

4.1. Preparation of the necessary reports on quality control;

4.2. Formalized transfer of information within the Bank;

4.3. Provision of reports outside the Bank takes place only after agreement with the Management;

5. Monitoring:

5.1. Conducting current and periodic controls and assessments (the first and second level within the ICS);

5.2. Assessment and further consideration of reports on identified deficiencies (the third level of the ICS).

The Internal Control System (ICS) provides:

1) Double control consisting in observing the rule of "two pairs of eyes" during implementation of the Bank's transactions, and according to which implementation and control of operations cannot be one person powers;
2) Clear distribution of duties, powers and responsibilities between the Bank's management bodies, between its structural units, and between employees in order to avoid their duplication;
3) Conducting a thorough and comprehensive preliminary analysis of the Bank's transactions aimed at prompt prevention of illegal (incorrect or unauthorized) transactions;

4) Conducting the further analysis of the Bank's operations with the aim of:
   - ensuring proper recording of the fact of legitimate transactions;
   - ensuring prevention of illegal transactions in the future;
5) Timely and reliable reporting of the Bank's transactions;
6) Fulfillment of requirements regarding the arrangement of information protection in software and technical complexes in accordance with the normative legal acts of the National Bank of Ukraine;
7) Implementation and functioning of the information security management system in accordance with the standards of the National Bank of Ukraine, international standards and requirements of state bodies that exercise control in the field of information security;
8) Protection against intentional actions of personnel that harm the Bank, as well as personnel errors, prevention and control of errors;
9) Personnel training based on the analysis of the qualifications of the existing personnel, compliance of experience and knowledge with the requirements of the process and existing software, as well as statistics of mass errors (source — human factor) for the Bank as a whole:
10) The Bank's compliance with legislation and other mandatory requirements;
11) Prevention of situations of conflict of interests and their settlement;
12) Protection of the Bank's image and reputation.

16) Information on the results of the Internal Audit System functioning during the year

The Internal Audit System of the Bank as a whole is effective and meets the requirements of the International Standards of Professional Practice of Internal Auditing (hereinafter referred to as the Standards) and the Code of Ethics of the Institute of Internal Auditors, which is confirmed by the results of internal and external assessments. The last external assessment of the internal audit quality was conducted in October of 2017 by independent appraiser JP GARITTE CONSULTING AND MANAGEMENT ASSURANCE SA, Luxembourg. Considering the requirements of the Standards, in 2022 it was planned to conduct the next external assessment of the effectiveness and quality of the internal audit, but due to the military aggression of the Russian Federation and the work of the Bank in extraordinary conditions, as well as considering the relevant provision of the resolution of the Board of the National Bank of Ukraine No.67 dated March 31, 2022 (which with cl. 2^2 supplements Resolution of the Board of the National Bank of Ukraine No.23 dated February 25, 2022 "On Some Issues of the Activity of Ukrainian Banks and Banking G"), such an assessment has been postponed until 2023.

17) Information on the facts of disposal of assets during the year in an amount exceeding the amount established in the Bank's Charter

Within the reporting year, there were no facts of disposal of the Bank's assets in the amount exceeding the amount established in the Bank's Charter.

18) Information on the results of the assets assessment in the case of their purchase and sale during the year in an amount exceeding the amount established in the Bank's Charter.

Due to absence of asset purchase and sale transactions during the year in the amount exceeding the amount established in the Bank's Charter, asset valuation was not carried out.

19) Information on transactions with related parties, including within one industrial and financial group or other association, conducted during the year

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

The Bank conducts transactions with persons related to the Bank on market terms, in compliance with the requirements of the law regarding coordination/approval of transactions by the Bank's Supervisory Board/Credit Board. The Bank does not provide loans to any person for the repayment of any obligations by this person to a person related to the Bank; for the acquisition of assets of a person related to the Bank, with the exception of products produced by this person; for the purchase of securities placed or signed by a person related to the Bank.

The Bank submits monthly information to the NBU on persons related to the Bank in accordance with the procedure established by the regulatory legal acts of the NBU. The process of interaction of the Bank's units in identifying persons related to the Bank, forming, updating and providing the NBU with a list of persons related to the Bank is regulated by "Policy of FUIB JSC Interaction with Related Persons" and Regulation "On Formation of the List of FUIB JSC Related Persons".

The Bank's Management Board approves the list of persons related to the Bank every month. The Supervisory Board quarterly reviews information on changes in the list of persons related to the Bank, as well as information on transactions with related persons.

Information on transactions with related parties, in accordance with IAS 24 "Disclosure of Information about Related Parties", is covered in Note 29 of "Transactions with Related Parties" of the annual financial statements of FUIB JSC for the year ended December 31, 2022.

20) Information on the used recommendations of the bodies that carry out state regulation of banking services, regarding the auditor's opinion

In 2022, the Bank did not receive any recommendations regarding the audit opinion from the bodies that regulate banking services.

21) Information about the external auditor of the Bank's Supervisory Board, including the one appointed in 2021

According to the results of the competition for selection of subjects of audit activity, which can be selected for the mandatory audit of the Bank's financial statements, based on the criteria for the selection of the subject of audit activity approved by Decision of the Supervisory Board dated April 29, 2021 (Minutes No.367), considering the requirements of Law of Ukraine No.2258-VIII dated December 21, 2018, according to Decision of the Bank's Supervisory Board dated June 22, 2021 (Minutes No.372) Deloitte & Touche Ukrainian Service Company LLC (certificate of inclusion in the Register of auditors and subjects of audit activity No.1973 according to the decision of the Audit Chamber of Ukraine dated June 22, 2001) was selected as the Bank's auditor to conduct an external mandatory audit of the Bank's financial statements for 2021-2023. No other decision was made.

22) Information on the activities of the external auditor, namely:

- **Total audit experience:**

Total experience of audit activity of Deloitte & Touche Ukrainian Service Company LLC is 29 years.

- **The number of years during which it provides audit services to the Bank:**

Deloitte & Touche Ukrainian Service Company LLC provides the Bank with mandatory audit services for the Bank's financial statements for the second year in a row (selected as a result of the competitive selection process in July of 2021).

- **The list of other audit services provided to the Bank during the year:**

Deloitte & Touche Ukrainian Service Company LLC did not provide the Bank with other audit services, except for those mentioned above, during 2022.

- **Cases of conflict of interest and/or combination:**

During 2022, there are no cases of conflict of interests and/or combining the functions of the internal auditor.

- **Rotation of auditors at the Bank over the past five years:**

Over the past five years, the auditors of the Bank's financial statements have been rotated twice:

- the Bank's external auditor, which provided mandatory audit services of the Bank's financial statements in 2017 and 2018, was Ernst & Young Audit Services Limited Liability Company (in general, it provided audit services for five years from 2014 to 2018);
- according to the requirements of the legislation, in 2019, the auditor was rotated through the selection of a new external auditor — KPMG Audit PJSC, which provided mandatory audit services of the Bank's financial statements for 2019 and 2020;
- after expiration of the contract with KPMG Audit PJSC, the Bank conducted a competitive selection of audit entities in July of 2021 and selected a new external auditor to provide mandatory audit services regarding the Bank's financial statements for 2021-2023 — Deloitte & Touche Ukrainian Service Company LLC.

- **Penalties applied to the auditor by the Audit Chamber of Ukraine during the year, and the facts of submitting unreliable reports to the Bank confirmed by the auditor's opinion discovered by the Bank's supervisory bodies.**

The Bank does not have any information regarding penalties applied to Deloitte & Touche Ukrainian Service Company LLC during 2022 by the Audit Chamber of Ukraine (there is no such information in public sources), and regarding the facts of the submission of unreliable reports to the Bank, confirmed by the audit opinion, which was discovered by the Bank's supervisory bodies.

23) Information on the Bank's protection of the rights and interests of clients receiving the banking services, namely:

The existence of a complaint handling mechanism, the status of the Bank's handling of complaints regarding the provision of banking services during the year (nature, number of complaints received and the number of satisfied complaints), presence of lawsuits regarding the provision of banking services and the results of their consideration.

In order to protect the rights of consumers of banking services, the Bank has implemented a mechanism for considering appeals of clients (offers (remarks), statements (requests), complaints), counterparties, third parties, which is regulated by the internal bank regulatory document "Procedure for Managing Complaints, Offers and Thanks from Clients and other Interested Parties ", which contains a clear division of powers and responsibilities of persons involved in the consideration of appeals. Clients of the Bank can familiarize themselves with this Procedure in electronic format at the points of contact with the client.

The Bank uses the following channels of receipt of requests from the Bank's clients:

- Telephone appeal at officially designated telephone numbers: +38 044 290 7 290, +38 096 290 7 290, +38 050 2907 290, +38 093 290 7 290, (line for clients Persona, line (0 800 501 495);
- Oral appeal in the department;
- Written application at the Bank's branches;
- Forums and social media;
- Email: Info@fuib.com;
- The Bank's website;
- PUMB-online: online.pumb.ua/;
- Chat
- QR code (placed in a pilot format at 21 branches)
- Mobile app PUMB-Online;
- Internet banking or client-bank for corporate clients;
- Mail, written appeals (that are considered within the framework of the specified procedure);
- Letters of appeal from the National Bank of Ukraine via NBU-post;
- SKM hotline.

The process of consideration of received complaints is carried out centrally at the Bank level and consists of registration of the appeal, consideration of the complaint/offer, detailed analysis of the causes of the complaint and the consequences of such a complaint, preparation and provision of a comprehensive answer, proper control over all stages of the process of complaint consideration.

The work with the complaint is considered completed after the consumer is notified of the results of the consideration and the measures taken, if the consumer has requested feedback. In cases where it is impossible to contact the client (for example, after several attempts to call for several days, the subscriber does not answer, the subscriber's number is "out of the zone" or "does not exist"), the complaint is closed with a comment that the client was not answered. Such cases are an exception, and in the case of a repeated application by the client, the Bank will provide him/her with an answer based on the previous request.

According to Art. 20 of the Law of Ukraine "On Appeals of Citizens", appeals are considered and resolved within a period of no more than one month from the day of receipt, and those that do not require additional study — immediately, but no later than 15 days from the day of their receipt.

The deadlines for the general consideration of appeals are as follows:

Channels of submission	RB Client	CB Client	Persona Client	NBU Appeal
Telephone appeal	5 business days	7 business days	3 business days	-
Oral appeal in the department	5 business days	7 business days	3 business days	-
A written application to the department	30 calendar days	30 calendar days	30 calendar days	-
Forums and social media	5 business days	7 business days	3 business days	-
Email: Info@fuib.com	5 business days	7 business days	3 business days	-
The Bank's website	5 business days	7 business days	3 business days	-
PUMB-online online.pumb.ua/	5 business days	7 business days	3 business days	-
Chat	5 business days	7 business days	3 business days	-
QR-code	5 business days	7 business days	3 business days	-
Mobile app PUMB-Online	5 business days	7 business days	3 business days	-
Internet banking or client-bank for corporate clients	5 business days	7 business days	3 business days	-
Mail, written appeals (that are considered within the framework of the said procedure)	30 calendar days	30 calendar days	30 calendar days	-
Letters of appeal from the National Bank of Ukraine via NBU-post				10 calendar days or until the date

Channels of submission	RB Client	CB Client	Persona Client	NBU Appeal
				specified in the request
SKM hotline	30 calendar days	30 calendar days	30 calendar days	-

The complaints/suggestions/thanks manager controls the process of closing a client's or other interested person's appeal and is also individually responsible for both registering the appeal and providing feedback to the client.

The Bank perceives every appeal, be it a complaint, statement or offer from a client or other interested person, as an opportunity to improve its work, improve the quality of service and the level of satisfaction of clients and other interested parties.

The Bank strictly complies with the requirements of the legislation on the consumer rights protection.

The Department of Client Experience of the Marketing Department is the responsible unit of the Bank for timely consideration and settlement of customer appeals and providing answers based on the results of their consideration.

During 2022, the Bank received a total of 30,507 appeals, where 22,763 — complaints, 1,586 — thanks and 6,158 — offers.

TOP 5 categories of complaints for 2022:

Remote access services	10,407
Bank products	3,323
Client service	2,431
Errors in personal data of clients	1,971
Department	1,244

Complaints were related to the charging of interest or the amount of interest to clients regarding the Bank's products, namely, regarding the "Credit Card" product, improper operation of remote access services, namely, in the mobile version, client service, operation of branches.

All complaints were properly processed by the specialized units of the Bank (the Department of Digital Business Development and Remote Channels, the Remote Sales and Service Center, the Client Service Department, the Department for Processing Requests of the Bank and Partner Banks).

20,665 client complaints are completely closed in 2022, 2,098 complaints are in operation and under consideration (such complaints require additional clarification, refinement of technical functionality, adjustments).

As a result of consideration of client complaints, feedback will be provided to the client, if required by the client. A significant part of the complaints turned out to be unconfirmed.

During 2022, a court case with the Bank's claims exceeding the amount of 1 percent of the Bank's assets was considered, namely: case No. 920/1142/20 on the Bank's claim against the defendants: Joint Stock Company "Sumy Machine-Building Research and Production Association" (identification code 05747991) and Limited Liability Company "Sumy Machine-Building Research and Production Association" (identification code 34013028), on recovery of USD 36,890,322.75 of loan debt, UAH 86,754,965.27 of penalty and USD 594,000.00 of fine, and on counterclaim: Limited Liability Company "Sumy Machine-Building Research and Production Association" (identification code 34013028) to the Bank on invalidation of the guarantee agreement and recognition of the guarantee as terminated. On 17.10.2022, the Commercial Court of Sumy region partially satisfied the Bank's claim, the Decision entered into force on 17.11.2022, the relevant court orders were received on 22.11.2022. By the decision of the Northern Commercial Court of Appeal dated 28.03.2023, the Decision of the Commercial Court of Sumy region dated 17.10.2022 was upheld.