JOINT STOCK COMPANY
“FIRST UKRAINIAN INTERNATIONAL BANK”

Financial Statements

for the Year Ended 31 December 2023,
together with Independent Auditor’s Report

Management Report

Table of contents

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 2023, 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 material accounting policy information (“financial statements”).

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 2023, 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 2023 and 2022 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 54 and UAH 52 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 2023 and 2022 should have been increased by UAH 2,286,320 thousand and UAH 1,778,314 thousand, respectively, reserve of gains and losses on financial assets measured at fair value through other comprehensive income as at 31 December 2023 and 2022 should have been increased by UAH 1,714,740 thousand and UAH 1,458,218 thousand, respectively, deferred tax liabilities as at 31 December 2023 and 2022 should have been increased by UAH 571,580 thousand and UAH 320,097 thousand, respectively, gains on financial assets measured at fair value through other comprehensive income, before tax, for the years ended 31 December 2023 and 2022 should have been increased by UAH 508,005 thousand and UAH 393,312 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 2023 and 2022 should have been increased by UAH 251,483 thousand and UAH 70,796 thousand, respectively and information disclosed in notes related to these shares should have been corrected accordingly.

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 arising on initial recognition of financial assets 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, 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 the gain arising on initial recognition of financial assets in its statement of 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. Our audit opinion on the financial statements for the year ended 31 December 2022 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 *Basis for Qualified Opinion* and *Material Uncertainty Related to Going Concern* sections 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 *Allowances for expected credit losses for loans and advances to customers on a collective basis*	How the matter was addressed in the audit
Allowances for Expected Credit Losses (ECL) on a collective basis represent management's best estimate of the 12-months ECL for Stage 1 assets or lifetime ECL for Stage 2 assets at the reporting date. They are calculated for portfolios of loans with similar credit risk characteristics. The calculation of collective 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. In addition, key areas of judgments and estimates regarding the assessment of allowance for ECL on loans and advances to customers on a collective basis 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 on a collective basis 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 Notes 5, 9 and 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 on collective basis. • 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. • 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, actions taken to eliminate threats or safeguards applied.

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 Supervisory Board on 22 July 2021. In view of the previous renewals and reappointments, we conducted audit from 1 November 2021 to the date of this report.

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

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

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for preparation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with amendments) ("Instruction No. 373"), we report the following:

- In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, the management report has been prepared in accordance with the requirements of the Article IV of the Instruction No. 373 and the information in the management report is consistent with the financial statements, 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 2023 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 2023 the Bank does not have 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 2023 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 21 November 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“

Certified Auditor Kateryna Yermoshyna

Registration Number in the Register of Auditors and Auditing Entities 102247

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

25 March 2024

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Statement of financial position as at 31 December 2023

(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Assets			
Cash and cash equivalents	6	33,747,952	46,455,869
Loans and advances to banks	7	4,213,505	3,490,916
Investments in securities	8	58,155,525	12,586,771
Loans and advances to customers	9	52,058,047	43,770,237
Derivative financial assets	18	8,510	–
Current tax assets		–	32,962
Other financial assets	12	2,611,752	2,419,697
Other non-financial assets	12	273,802	330,806
Property, plant, and equipment	10	1,652,243	1,710,376
Investment property	10	59,168	59,168
Intangible assets, other than goodwill	10	320,312	654,811
Right-of-use assets	11	234,030	259,282
Deferred tax assets	24	–	203,325
Total assets		**153,334,846**	**111,974,220**
Liabilities			
Due to the Central Bank	13	–	4,188,304
Due to other banks	14	2,716,727	2,324,222
Customer accounts	15	126,542,822	90,299,888
Derivative financial liabilities	18	1,250	93,807
Lease liabilities	16	266,294	274,383
Current tax liabilities	24	3,200,277	–
Other financial liabilities	17	2,188,420	2,546,201
Other non-financial liabilities	17	909,011	551,034
Deferred tax liabilities	24	120,273	–
Total liabilities		**135,945,074**	**100,277,839**
Equity			
Share capital	19	4,780,595	4,780,595
Share premium		101,660	101,660
Revaluation surplus		403,283	430,759
Reserve of gains and losses on financial assets measured at fair value through other comprehensive income		1,407,291	(350,345)
Statutory reserve		2,909,909	2,909,909
Retained earnings		7,787,034	3,823,803
Total equity		**17,389,772**	**11,696,381**
Total liabilities and equity		**153,334,846**	**111,974,220**

Signed on behalf of the Management Board on 25 March 2024 by:

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

O. O. Poleshchuk (Chief Accountant)

The accompanying notes on pages from 6 to 74 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 2023

(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Interest revenue calculated using effective interest rate method	20	19,916,370	14,512,778
Interest income	20	348,180	382,603
Interest expense	20	(7,899,066)	(4,740,903)
Net interest income		**12,365,484**	**10,154,478**
Commission income	21	3,935,528	3,205,014
Commission expenses	21	(1,791,291)	(1,183,751)
Net commission income		**2,144,237**	**2,021,263**
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	6, 7, 8, 9, 12, 27	(439,299)	(10,338,901)
Net increase (decrease) from trading in foreign currencies		857,655	1,264,678
Net increase (decrease) from foreign exchange translation		42,712	166,962
Net increase (decrease) from operations with debt financial instruments measured at fair value through other comprehensive income		(11,549)	(50,656)
Net increase (decrease) from revaluation of investment property	10	–	(249)
Gains (losses) on change in fair value of derivatives		167,524	177,491
Net increase (decrease) from operations with financial instruments measured at fair value through profit or loss		–	(2)
Gains (losses) arising on initial recognition of financial assets		–	1,243,421
Gains (losses) arising on initial recognition of financial assets at interest rates above or below market		–	1,064
Gain (loss) arising from derecognition of financial assets measured at amortised cost		(683)	2,109
Impairment gain and reversal of impairment loss (impairment loss) for non-financial assets	12, 27	38,392	(80,449)
Other gains (losses)	22	116,768	231,755
Profit (loss) from operating activities		**15,281,241**	**4,792,964**
Operating expense	23	(7,043,808)	(5,278,302)
Profit (loss) before tax		**8,237,433**	**(485,338)**
Tax (expense)/income	24	(4,281,958)	87,615
Profit (loss) for the reporting period		**3,955,475**	**(397,723)**
Earnings per share (UAH per share)	30	**276.15**	**(27.77)**

Signed on behalf of the Management Board on 25 March 2024 by:

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

O. O. Poleshchuk (Chief Accountant)

The accompanying notes on pages from 6 to 74 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2023

(In Ukrainian Hryvnias and in thousands)

	2023	2022
Profit (loss) for the reporting period	**3,955,475**	**(397,723)**
Other comprehensive income		
Components of other comprehensive income that will be reclassified to profit or loss, after tax		
Gains (losses) on financial assets measured at fair value through other comprehensive income, before tax	2,292,089	(629,885)
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	11,549	50,656
Income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income	(546,002)	104,261
Total other comprehensive income (loss) that will be reclassified to profit or loss, after tax	**1,757,636**	**(474,968)**
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	(19,720)	(1,751)
Total other comprehensive income (loss) that will not be reclassified to profit or loss, after tax	**(19,720)**	**7,779**
Other comprehensive loss for the year, net of tax	**1,737,916**	**(467,189)**
Total other comprehensive income (loss) for the reporting period	**5,693,391**	**(864,912)**

Signed on behalf of the Management Board on 25 March 2024 by:

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

O. O. Poleshchuk (Chief Accountant)

The accompanying notes on pages from 6 to 74 form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2023

(In Ukrainian Hryvnias and in thousands)

	2023	2022 (restated)
Cash flows from operating activities		
Interest received	19,128,951	13,646,770
Interest paid	(7,718,539)	(4,690,264)
Commission income received	3,916,779	3,162,954
Commission expenses paid	(1,668,402)	(1,177,175)
Net increase in operations with foreign currencies	857,655	1,264,678
Net increase in operations with financial instruments measured at fair value through profit or loss	66,268	1,517,308
Other cash receipts from operating activities	75,415	94,038
Administrative expenses and other paid operating expenses	(4,797,727)	(4,680,602)
Income taxes paid	(1,290,857)	(290,804)
Net cash flows from operations	**8,569,543**	**8,846,903**
Net (increase)/decrease in operating assets		
Loans and advances to banks	(528,651)	292,113
Investments in securities*	–	8
Loans and advances to customers	(6,350,145)	3,591,758
Other financial assets	(177,988)	(625,891)
Other non-financial assets	240	(11,547)
Net (decrease)/increase in operating liabilities		
Due to other banks	297,322	157,764
Customer accounts	34,600,070	1,130,171
Other financial liabilities	(571,002)	271,028
Other non-financial liabilities	–	(511,776)
Net cash flows from operating activities	**35,839,389**	**13,140,531**
Cash flows from investing activities		
Purchase of property, plant, and equipment	(445,106)	(433,844)
Proceeds on sales of property, plant, and equipment	81,819	4,027
Purchase of intangible assets	(890,131)	(702,158)
Purchase of securities	(113,642,541)	(39,572,817)
Proceeds on sales and repayment of investments in securities	70,151,714	49,734,649
Net cash flows from (used in) investing activities	**(44,744,245)**	**9,029,857**
Cash flows from financing activities		
Due to the Central Bank	(4,200,500)	(1,499,500)
Payments of lease liabilities	(122,883)	(113,018)
Net cash flows used in financing activities (Note 31)	**(4,323,383)**	**(1,612,518)**
Effect of exchange rate changes on cash and cash equivalents	519,054	4,579,289
Impact of expected credit losses on cash and cash equivalents	1,268	(7,503)
Net increase (decrease) in cash and cash equivalents	**(12,707,917)**	**25,129,656**
Cash and cash equivalents at the beginning of the period	46,455,869	21,326,213
Cash and cash equivalents at the end of the period (Note 6)	**33,747,952**	**46,455,869**

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

Signed on behalf of the Management Board on 25 March 2024 by:

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

O. O. Poleshchuk (Chief Accountant)

The accompanying notes on pages from 6 to 74 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2023

(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 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 loss	–	–	7,779	(474,968)	–	–	**(467,189)**
Total comprehensive income (loss) for the reporting period	**–**	**–**	**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**
Profit	–	–	–	–	–	3,955,475	**3,955,475**
Other comprehensive income	–	–	(19,720)	1,757,636	–	–	**1,737,916**
Total comprehensive income (loss) for the reporting period	**–**	**–**	**(19,720)**	**1,757,636**	**–**	**3,955,475**	**5,693,391**
Increase (decrease) through other changes, equity	–	–	(7,756)	–	–	7,756	**–**
Equity as at 31 December 2023	**4,780,595**	**101,660**	**403,283**	**1,407,291**	**2,909,909**	**7,787,034**	**17,389,772**

Signed on behalf of the Management Board on 25 March 2024 by:

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

O. O. Poleshchuk (Chief Accountant)

The accompanying notes on pages from 6 to 74 form an integral part of these financial statements.

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”. Effective from 13 April 2022, during the martial law period in Ukraine and within three months after its termination or cancellation, the Individual Deposit Guarantee Fund ensures the repayment of individual deposits to each depositor of the Bank in full (2022: UAH 200 thousand per individual).

As at 31 December 2023 and 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). 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 2023, the Bank had five regional centers and 215 outlets in Ukraine (31 December 2022: five regional centers and 213 outlets in Ukraine).

According to Resolution of the National Bank of Ukraine No. 254, Section I, Para. 10, the responsible party has the right not to take into account the financial statements of the Banking Group’s members when preparing the consolidated financial statements of the Banking Group/sub-consolidated financial statements of a subgroup of the Banking Group if the total assets of such Banking Group’s members are less than a lower of: 3% of the Banking Group’s assets or UAH 300 million. The Bank will use this simplification for the current and further reporting periods.

2. Operating environment of the Bank

In 2023, the full-scale war which started in February 2022 as a result of the armed aggression of the russian federation continued in the whole territory of Ukraine. territory of Ukraine continued to be exposed to military actions. These events led to a significant destruction of infrastructure, displacement of large numbers of people, and disruption of economic activities in Ukraine. However, in 2023, Ukraine’s GDP began to recover and grew by 5% (in 2022, GDP dropped by 30%). Also, in 2023, the inflation rate sharply slowed down to 5.1% in annual terms (2022: 26.6%). However, the National Bank of Ukraine (the “NBU”) expects further growth in inflation in 2024. During 2023, the national currency devalued by 4% against USD and by 8% against EUR comparing to the official exchange rates at the end of 2022 (2022: devalued by 34% against USD and 26% against EUR).

From the onset of the full-scale war, the NBU has introduced a range of temporary protective measures, such as restriction of cross-border payments in foreign currencies and fixing the official exchange rate for major currencies. In October 2023, the NBU introduced a regime of managed flexibility of the exchange rate, which provides for daily exchange rate fluctuations within narrow limits in both directions depending on market conditions. In 2022, the NBU increased the discount rate to 25%, however, effective from 15 December 2023, the discount rate has been set at the level of 15%. In 2023, the NBU additionally tightened the requirements to mandatory reserves of banks. Thanks to the assistance from partners, the NBU’s international reserves as at the beginning of December 2023 exceeded the pre-war level and reached USD 40.5 billion. In general, the Ukrainian Government continues to service external debt obligations, and the banking system remains operational and maintains stability.

The approved state budget of Ukraine for 2024 presupposes that the budget deficit amount to about 20% of GDP (or USD 42 billion) (2023: 30% of GDP). It is expected that the budget deficit will be financed through financial assistance from foreign partners in the form of grants and preferential long-term interest-free loans.

The Ukrainian Government received a significant international support, financing, and donations from international organizations, along with individual countries, and charities to support financial stability, social related payments, and military needs. For the period from late January 2022 to late 2023, the volumes of declared international financial aid amounted to more than EUR 141 billion, the volumes of military assistance exceeded EUR 98 billion, and humanitarian – EUR 15 billion.

Starting from 22 July 2022, an agreement between Ukraine, Turkey, and the UN was in effect on unblocking ports and resuming the exports of grain, which had been blocked in the Black Sea ports due to the war. The russian federation also signed a “mirror agreement” with Turkey and the United Nations. Effective from 17 July 2023, russia has officially withdrawn from the “grain agreement”, which creates difficulties for the export of agricultural products. In August 2023, a temporary sea corridor began to operate through which Ukraine succeeded to export 12.8 million tons of cargos during 2023. In 2023, a total of 56.3 million tons of goods were exported through Ukrainian ports (2022: 47.8 million tons).

2. Operating environment of the Bank (continued)

In the winter of 2022-2023, Ukraine witnessed massive power outages for the population and businesses due to a significant damage to power grids caused by missile attacks and shelling from the russian federation, which also caused problems with water and heat supply. The Government introduced a range of emergency measures to resolve those challenges and stabilize the economy. Effective from February 2023, the situation in the energy system of Ukraine improved and stabilized.

In June 2023, the russian troops blew up the dam of the Kakhovka Hydropower Station, which led to draining of the water reservoir. This caused negative environmental, humanitarian, and economic consequences for Khersonska and neighboring regions, in particular, for agriculture in the region.

In November 2023, Polish carriers started blocking the Ukrainian-Polish border by restricting the movement of load carriers at key checkpoints, which complicates logistics and results in significant losses to the Ukrainian economy. Later, similar border traffic blockades began in Slovakia, Hungary, and Romania. In December 2023, the movement of load carriers was partially unblocked, but the situation remains tough due to ongoing protests, including from Polish farmers.

On 15 March 2022, the Verkhovna Rada of Ukraine introduced some changes to the tax legislation and adopted the Law of Ukraine No. 2120-IX “On Amending the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period”. On 30 June 2023, the Verkhovna Rada of Ukraine adopted the Draft Bill No. 8401 which amended the Tax Code of Ukraine (Note 27).

The war between Ukraine and the russian federation is ongoing, resulting in a significant destruction of property and assets in Ukraine and other significant consequences. 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 full scale war is resolved and upon the success of the Ukrainian Government in realization of new reforms, recovery strategy and country transformation aimed to become a member of EU, and cooperation with the international funds.

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 position 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 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.

The hostilities in the territory of Ukraine and the currently unpredictable impact of the ongoing war affect the important assumptions underlying management’s projections and cause a material uncertainty regarding the Bank’s ability to continue as a going concern in the foreseeable 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. 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 2023.

3. Basis of preparation (continued)

General information (continued)

The Bank constantly monitors its liquidity position. As at the reporting date, current and potential liabilities exceeded current assets by UAH 12 billion. 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 a sufficient reserve of liquidity. At the same time, during the martial law period, balances on customer accounts have significantly 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 2024, 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 an increase in the balance sheet total as a result of an increase in corporate and retail loan portfolios, current and deposit accounts of customers, and investments in securities. The forecast of the Bank's performance indicators has been based on the assumption regarding a moderate drop in real GDP, a similar inflation rate, a further weakening of the exchange rate of UAH against key currencies, an inflow of liquidity, an increase in operating income and almost the same level of net interest margin.

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 the COVID-19 pandemic. After losses in 2022, the Bank recovered profitability in 2023.

As at the date these financial statements were authorized for issue, the Bank continued to operate. The Bank controls all its operations.

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. Material accounting policy information

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 2023. Substance and effect of significant amendments thereto are described below.

Amendments to IAS 1 "Presentation of Financial Statements" are aimed at assisting entities to ensure the disclosure of accounting policies that are more relevant to users, in particular: the requirement to disclose significant accounting policies has been replaced by the requirement to disclose material information about accounting policies; an explanation is given on how entities should apply the concept of "materiality" in the decision-making process regarding the disclosure of accounting policies.

Information is considered to be material if its omission, misstatement, or obscuring may reasonably be expected to affect the decisions made by users of general-purpose financial reports prepared on the basis of those financial statements that provide financial information about the entity's specific reports.

Information about accounting policies related to insignificant transactions, other events, and conditions is considered to be immaterial and does not require disclosure. An entity should not disclose standardized information or duplicate IFRS requirements in its accounting policies. Determining whether or not information about accounting policies is material requires the use of judgment and may result in additional effort, in particular, in the year when amendments are adopted.

There are several aspects when information about accounting policies may be significant, in particular: the entity has changed its accounting policies during the reporting period and this amendment has led to a significant change in the information in the financial statements; the entity has chosen an accounting policy from one or more options allowed by IFRS; the accounting policies have been developed in accordance with IAS 8 in the absence of a corresponding IFRS; the accounting policies relate to an area in which the entity is required to use judgments or assumptions in determining the accounting policies, and the entity discloses information about those judgments or assumptions; accounting for transactions is complex and, otherwise, users of the entity's financial statements would not understand these significant transactions.

4. Material accounting policy information (continued)

Adoption of new or revised Standards and Interpretations (continued)

The Bank applied these amendments in the reporting year.

Other amendments to IFRS that come into effect from 1 January 2023:

- IFRS 17 “Insurance Contracts”;
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates, and Errors” – Definition of accounting estimates;
- Amendments to IAS 12 “Income Taxes” – Deferred tax related to assets and liabilities arising from a single transaction;
- Amendments to IFRS 17 “Insurance Contracts” – First application of IFRS 17 and IFRS 9;
- Amendments to IAS 12 “Income Taxes” – International Tax Reform – Pillar Two Model Rules (the document published on the IASB website on 23 May 2023).

IFRS 17 and the amendments provided had no material effect on the Bank’s financial statements.

The material accounting policy information applied in the preparation of these financial statements are described below. This policy has been consistently applied to all years presented in the financial statements, unless otherwise indicated.

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 amortised cost, at fair value through other comprehensive income (FVTOCI), or at fair value through profit or loss.

A financial asset is measured at amortised cost only if it meets both of 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 amortised 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 equity to profit or loss.

4. Material accounting policy information (continued)

Classification – financial assets (continued)

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 amortised cost or at fair value through other comprehensive income 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.
- 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 (test "SPPI"), 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.

4. Material accounting policy information (continued)

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 derecognition of such securities. Any participation interest in the transferred financial asset that meets the criteria for derecognition that has arisen or was retained by the Bank is recognized as a separate asset or liability.

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.

4. Material accounting policy information (continued)

Modification of financial assets and financial liabilities (continued)

If cash flows from a modified asset measured at amortised cost do not differ substantially, then such a modification of terms does not result in a derecognition 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 amortised 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 derecognition 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 amortised 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.

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.

4. Material accounting policy information (continued)

Impairment – Financial assets, loan commitments, and financial guarantees (continued)

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.

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.

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.

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.

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 gains/(losses) from changes in the fair value of derivative financial instruments.

4. Material accounting policy information (continued)

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 Central Bank, due to other banks, customer accounts, and other borrowed funds. Upon initial recognition, borrowings are subsequently measured at amortised cost by 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;
- 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.

4. Material accounting policy information (continued)

Property, plant, and equipment (continued)

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 their 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 estimates the recoverable amount, which is determined as the higher of an asset's fair value, less costs to sell, and its value in use. The carrying amount is reduced to the recoverable amount, and the impairment loss is recognized in profit or loss for the year. 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).

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%	

The works of arts are not amortised. 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.

The acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. The 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.

The 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 treated as expenses when incurred. The capitalized computer software and licenses are amortised on a straight-line basis over the expected useful lives from 1 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 measured at fair value, which reflects market conditions at the reporting date.

4. Material accounting policy information (continued)

Investment property (continued)

Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of profit or loss in net increase (decrease) from 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 amortised 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.

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 amortised 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.

4. Material accounting policy information (continued)

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
- Amortised 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 (POCI), 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.

Amortised cost and gross carrying amounts

The amortised 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.

The gross carrying amount of financial assets measured at amortised cost is the amortised 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 amortised 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 amortised 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 items, 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.

4. Material accounting policy information (continued)

Foreign currency translation

Ukrainian Hryvnia (UAH) 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.

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 2024, the following new IFRS and amendments to IFRS come into force.

- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of liabilities as current or non-current;
- Amendments to IAS 1 “Presentation of Financial Statements” – Non-current liabilities with covenants;
- Amendments to IFRS 16 “Leases” – Lease liability in a sale and leaseback;
- Amendments to IAS 7 “Statement of Cash Flows” and IFRS 7 “Financial Instruments: Disclosures” – Supplier finance arrangements;
- Amendments to IAS 21 “The Effects of Changes in Foreign Exchange Rates” – Lack of exchangeability;
- IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information”;
- IFRS S2 “Climate-related Disclosures”.

The Bank analyzes the future impact on the financial statements.

Changes in the financial statements for the year ended 31 December 2022

During the year, the Bank has changed presentation of Statement of cash flows showing repayment of Due to the Central Bank as part of financing activity rather than operating. Cash outflow for repayment of Due to the Central Bank amounted to UAH 4,200,500 thousand UAH 1,499,500 thousand for the years ended 31 December 2023 and 2022, respectively. The Bank’s management believes that this change provides more reliable and relevant information. In accordance with the requirements of IAS 8 “Accounting policies, changes in accounting estimates and errors”, change was made retrospectively, comparative data for the year ended 31 December 2022 was adjusted accordingly.

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

The Bank makes estimates and judgments that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are consistently 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.

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

Impairment of loans and advances to customers and accounts receivable (continued)

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 331,785 thousand (2022: UAH 414,479 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 114,268 thousand (2022: UAH 178,237 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 142,408 thousand (2022: UAH 109,798 thousand). A simultaneous 10% decrease in PD and LGD would result in a decrease in expected credit losses on impairment by UAH 128,931 thousand (2022: UAH 99,341 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 146,813 thousand (2022: UAH 252,225 thousand). A simultaneous 10% decrease in PD and 10% increase in RR would result in the decrease in the expected impairment losses by UAH 144,194 thousand (2022: UAH 253,870 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 2023, 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 fair value of buildings doesn't differ significantly from their carrying value.

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 37,557 thousand higher or lower, respectively (2022: UAH 38,407 thousand), and the fair value of investment property would be by UAH 2,958 thousand higher or lower, respectively (2022: UAH 2,958 thousand).

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 terminate 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 208,425 thousand (2022: UAH 95,598 thousand).

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.

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

Fair value measurements (continued)

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 the access to the market is limited and there are reasonable barriers to sales that make it impossible to obtain reliable information, or if it is not possible to talk about a free sale in the open market due to limiting factors, or there are many different estimates of the fair value, and the 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 amortised 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.

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.

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

Determining and estimating the scenarios of expected cash flows and their probabilities on the loans 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.

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.

For the corporate portfolio of loans to customers, the Bank includes macroeconomic forward-looking information in the impairment assessment system by analyzing various credit risk assessment scenarios. Scenarios are defined as baseline (scenario weight – 40%), positive (scenario weight – 5%), and negative (scenario weight – 55%). The Bank used its own GDP and unemployment projections for the positive and negative scenarios, which are based on the official NBU forecasts used for the baseline scenario.

As at 31 December 2023, the Bank did not apply any forward-looking adjustments to the portfolio of loans to retail customers due to the uncertainty of the future economic situation related to the war in Ukraine. The Bank calculated the probability of default by using the data only for 2023 to forecast the current performance of the portfolio for the following year, because it is not possible to build a reliable regression model that could predict the future performance of the portfolio in correlation with macroeconomic data.

(In Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2023	**2022**
Cash on hand and in transit	2,886,363	2,474,608
Current account with the National Bank of Ukraine	9,998,708	3,627,745
Current accounts and overnight deposits with other banks of Ukraine	108,802	218,197
Current accounts and overnight deposits with other banks of other countries	10,748,438	15,112,369
Current accounts and overnight deposits with other foreign banks – expected credit losses	(6,688)	(8,547)
Deposit certificates issued by the National Bank of Ukraine	10,012,329	25,031,497
Total cash and cash equivalents	**33,747,952**	**46,455,869**

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 2023 and 2022, 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 2023, deposit certificates issued by the National Bank of Ukraine with the nominal value of UAH 10,012,329 thousand (31 December 2022: UAH 25,031,497 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 2023:

Cash and cash equivalents	**Stage 1**
Gross carrying amounts as at 1 January 2023	**46,464,416**
New assets	10,140,981
Assets repaid	(25,253,681)
Change in carrying amounts during the period	1,883,747
Translation differences	519,177
As at 31 December 2023	**33,754,640**

Cash and cash equivalents	**Stage 1**
Expected credit losses as at 1 January 2023	**8,547**
New assets	70
Assets repaid	(16)
Change in expected credit risk estimation	(2,207)
Recovery of earlier written-off items	56
Translation differences	238
As at 31 December 2023	**6,688**

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

(In Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents (continued)

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

The following is the analysis of current accounts and overnight deposits with other banks by credit quality as at 31 December 2023:

	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	–	6,251,727	**6,251,727**
- A- to A+ rated	–	4,492,304	**4,492,304**
- BBB- to BBB+ rated	–	4,407	**4,407**
- CCC- to CCC+ rated	108,802	–	**108,802**
Total	**108,802**	**10,748,438**	**10,857,240**
Less: Expected credit losses	–	(6,688)	**(6,688)**
Total current accounts and overnight deposits with other banks	**108,802**	**10,741,750**	**10,850,552**

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**

(In Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents (continued)

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 credit ratings for the current account with the National Bank of Ukraine and deposit certificates issued by the National Bank of Ukraine were based on the sovereign rating of Ukraine. As at 31 December 2023 sovereign rating of Ukraine according to Fitch was CC (31 December 2022– according to S&P was CCC+).

7. Loans and advances to banks

	2023	**2022**
Term deposits with other banks, including:		
- OECD countries	3,769,730	2,944,352
- Domestic	28,809	14,943
- Other countries	418,988	534,641
Total term deposits with other banks	**4,217,527**	**3,493,936**
Less: Expected credit losses	*(4,022)*	*(3,020)*
Total loans and advances to banks	**4,213,505**	**3,490,916**

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 2023 was as follows:

Loans and advances to banks	**Stage 1**
Gross carrying amounts as at 1 January 2023	**3,493,936**
New assets	622,265
Assets repaid	(158,741)
Increase in carrying amounts during the period	65,123
Translation differences	194,944
As at 31 December 2023	**4,217,527**

Loans and advances to banks	**Stage 1**
Expected credit losses as at 1 January 2022	**3,020**
New assets	1,168
Assets repaid	(702)
Change in expected credit risk estimation	208
Translation differences	328
As at 31 December 2023	**4,022**

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 2023 was as follows:

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

(In Ukrainian Hryvnias and in thousands)

7. Loans and advances to banks (continued)

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

As at 31 December 2023, the term deposits placed with other banks in the OECD for the total amount of UAH 4,217,527 thousand (31 December 2022: UAH 3,493,936 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 379,824 thousand (31 December 2022: UAH 511,960 thousand).

The analysis by credit quality of term deposits with other banks as at 31 December 2023 was as follows:

	Term deposits with other banks
Stage 1	
- AA- to AA+ rated	2,326,228
- A- to A+ rated	1,823,326
- BBB- to BBB+ rated	14,886
- CCC- to CCC+ rated	21,156
- Unrated	31,931
Total	**4,217,527**
Less: Expected credit losses	(4,022)
Total loans and advances to banks	**4,213,505**

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 2022 was as follows:

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

(In Ukrainian Hryvnias and in thousands)

8. Investments in securities

Investments in securities measured at fair value through other comprehensive income

	2023	2022
Government debt securities of Ukraine	30,446,002	12,579,714
Deposit certificates issued by the National Bank of Ukraine	20,225,884	–
Government debt securities of other countries	7,476,582	–
Total debt securities	**58,148,468**	**12,579,714**
Including interest income accrued	***1,484,894***	***344,151***
Shares	7,057	7,057
Total investments in securities measured at fair value through other comprehensive income	**58,155,525**	**12,586,771**

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 2023 was as follows:

Investments in securities	Stage 1	Stage 2	Total
Gross carrying amounts as at 1 January 2023	**7,057**	**12,790,108**	**12,797,165**
New assets	52,918,861	–	**52,918,861**
Assets repaid or sold	–	(6,705,847)	**(6,705,847)**
Increase in carrying amounts during the period	–	524,968	**524,968**
Translation differences	343,800	(70,433)	**273,367**
As at 31 December 2023	**53,269,718**	**6,538,796**	**59,808,514**

Investments in securities	Stage 1	Stage 2	Total
Expected credit losses as at 1 January 2023	**–**	**210,394**	**210,394**
New assets	1,409,232	–	**1,409,232**
Assets repaid or sold	–	(70,572)	**(70,572)**
Change in expected credit risk estimation	–	103,935	**103,935**
As at 31 December 2023	**1,409,232**	**243,757**	**1,652,989**

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 or sold	(6,109,391)	(6,077,414)	**(12,186,805)**
Transfer to Stage 2	(17,135,747)	17,135,747	**–**
Decrease 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**

(In Ukrainian Hryvnias and in thousands)

8. Investments in securities (continued)

Investments in securities	Stage 1	Stage 2	Total
Expected credit losses as at 1 January 2022	**110,063**	**–**	**110,063**
Assets repaid or sold	–	(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 by credit quality of debt securities measured at fair value through other comprehensive income, by using the minimum rating assigned by one of the rating agencies of Standard & Poor’s, Fitch, or Moody’s as at 31 December 2023, was as follows:

	Government debt securities	Deposit certificates issued by the NBU	Government debt securities of other countries	Total
Stage 1				
- AA+ rated	–	–	6,218,581	**6,218,581**
- AA- rated	–	–	1,258,001	**1,258,001**
- CC rated	24,150,962	20,225,884	–	**44,376,846**
Stage 2				
- CC rated	6,295,040	–	–	**6,295,040**
Total debt securities	**30,446,002**	**20,225,884**	**7,476,582**	**58,148,468**

The analysis by credit quality of debt securities measured at fair value through other comprehensive income, by using the minimum rating assigned by one of the rating agencies of Standard & Poor’s, Fitch, or Moody’s as at 31 December 2023, 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**

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 2023, deposit certificates with the nominal value of UAH 10,012,329 thousand (31 December 2022: UAH 25,031,497 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 2023, government debt securities included domestic government loan bonds with maturities ranging from 14 February 2024 to 4 November 2026 and effective interest rates ranging from 13% to 27% per annum (31 December 2022: maturities ranging from 2 February 2023 to 30 October 2024 and effective interest rates ranging from 4% to 15% per annum).

Deposit certificates issued by the National Bank of Ukraine had ultimate maturities ranging from 5 January 2024 to 15 March 2024 and effective interest rate from 20% to 22% per annum (31 December 2022: no deposit certificates).

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers

	2023	2022
Corporate loans	44,724,306	39,275,488
Finance leases	1,753,696	1,640,147
Less: Expected credit losses	(4,242,807)	(7,036,663)
Total corporate loans, less expected credit losses	**42,235,195**	**33,878,972**
Loans to individuals		
Consumer loans	4,669,359	5,792,769
Credit cards and overdrafts	8,197,873	12,401,450
Mortgage loans	129,105	103,406
Car loans	194	188
Less: Expected credit losses	(3,173,679)	(8,406,548)
Total loans to individuals, less expected credit losses	**9,822,852**	**9,891,265**
Total loans and advances to customers	**52,058,047**	**43,770,237**

The analysis of the gross carrying amounts by stages of impairment as at 31 December 2023 was as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
Corporate loans	35,061,609	5,558,727	4,079,579	24,391	**44,724,306**
Finance leases	1,436,202	156,389	161,105	–	**1,753,696**
Consumer loans	3,380,544	721,516	567,299	–	**4,669,359**
Credit cards and overdrafts	5,675,592	1,142,366	1,379,915	–	**8,197,873**
Mortgage loans	8,253	20,413	99,374	1,065	**129,105**
Car loans	–	–	194	–	**194**
Less: Expected credit losses	(1,035,278)	(1,295,520)	(5,070,019)	(15,669)	**(7,416,486)**
Total loans and advances to customers	**44,526,922**	**6,303,891**	**1,217,447**	**9,787**	**52,058,047**

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**

Changes in the gross carrying amounts and expected credit losses on loans measured at amortised 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 and 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.

(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 amortised cost (continued)

The analysis of changes in the gross carrying amounts and relevant expected credit losses on corporate loans during the year ended 31 December 2023 was as follows:

Corporate loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amounts as at 1 January 2023	**26,718,331**	**5,421,511**	**7,062,457**	**73,189**	**39,275,488**
New assets	18,810,747	–	–	–	**18,810,747**
Assets repaid or sold	(8,978,935)	(743,879)	(464,891)	–	**(10,187,705)**
Transfers to Stage 1	759,678	(582,106)	(177,572)	–	**–**
Transfers to Stage 2	(1,631,873)	1,631,873	–	–	**–**
Transfers to Stage 3	(25,258)	(398,667)	423,925	–	**–**
Increase/(decrease) in carrying amounts during the period	(968,661)	58,170	(61,906)	(54,773)	**(1,027,170)**
Changes in contractual cash flows due to modifications not resulting in derecognition and other changes within the existing contractual terms and conditions	19,206	(3,369)	4,135	–	**19,972**
Use of allowance	–	–	(2,805,649)	–	**(2,805,649)**
Recovery of POCI loan's value	–	–	–	5,881	**5,881**
Translation differences	358,374	175,194	99,080	94	**632,742**
As at 31 December 2023	**35,061,609**	**5,558,727**	**4,079,579**	**24,391**	**44,724,306**

Corporate loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses as at 1 January 2023	**410,945**	**673,139**	**5,762,592**	**18,745**	**6,865,421**
New assets	231,259	–	–	–	**231,259**
Assets repaid or sold	(122,241)	(54,825)	(223,181)	–	**(400,247)**
Transfers to Stage 1	83,894	(51,179)	(32,715)	–	**–**
Transfers to Stage 2	(30,006)	30,006	–	–	**–**
Transfers to Stage 3	(546)	(105,763)	106,309	–	**–**
Change in expected credit risk estimation	(62,516)	78,017	(173,467)	(10,042)	**(168,008)**
Recovery of allowances for loans written off in prior periods	–	–	2,582	–	**2,582**
Changes in contractual cash flows due to modifications not resulting in derecognition and other changes within the existing contractual terms and conditions	236	(280)	1,986	–	**1,942**
Use of allowance	–	–	(2,805,649)	–	**(2,805,649)**
Adjustment of interest income	2,243	–	339,451	11	**341,705**
Recovery of POCI loan's value	–	–	–	5,881	**5,881**
Translation differences	5,851	13,949	73,376	9	**93,185**
As at 31 December 2023	**519,119**	**583,064**	**3,051,284**	**14,604**	**4,168,071**

(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 amortised 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 2023 was as follows:

Finance leases	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2023	**752,503**	**647,400**	**240,244**	**1,640,147**
New assets	970,400	–	–	**970,400**
Assets repaid or sold	(201,688)	(48,199)	(58,683)	**(308,570)**
Transfers to Stage 1	317,328	(317,328)	–	**–**
Transfers to Stage 2	(57,674)	57,674	–	**–**
Increase/(decrease) in carrying amounts during the period	(344,667)	(183,158)	(20,417)	**(548,242)**
Use of allowance	–	–	(39)	**(39)**
As at 31 December 2023	**1,436,202**	**156,389**	**161,105**	**1,753,696**

Finance leases	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2023	**5,980**	**105,122**	**60,140**	**171,242**
New assets	7,829	–	–	**7,829**
Assets repaid or sold	(3,274)	(2,127)	(8,885)	**(14,286)**
Transfers to Stage 2	64,145	(64,145)	–	**–**
Transfers to Stage 3	(200)	200	–	**–**
Change in expected credit risk estimation	(61,944)	(26,885)	(7,608)	**(96,437)**
Use of allowance	–	–	(39)	**(39)**
Adjustment of interest income	–	–	6,427	**6,427**
As at 31 December 2023	**12,536**	**12,165**	**50,035**	**74,736**

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 2023 was as follows:

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2023	**2,851,629**	**848,983**	**2,092,157**	**5,792,769**
New assets	3,059,998	–	–	**3,059,998**
Assets repaid or sold	(1,824,019)	(215,408)	(348,726)	**(2,388,153)**
Transfers to Stage 1	65,716	(65,716)	–	**–**
Transfers to Stage 2	(239,913)	239,913	–	**–**
Transfers to Stage 3	(119,361)	(349,931)	469,292	**–**
Increase/(decrease) in carrying amounts during the period	(413,506)	263,675	236,076	**86,245**
Use of allowance	–	–	(1,881,500)	**(1,881,500)**
As at 31 December 2023	**3,380,544**	**721,516**	**567,299**	**4,669,359**

(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 amortised cost (continued)

Consumer loans	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2023	**225,044**	**471,138**	**1,984,225**	**2,680,407**
New assets	86,750	−	−	**86,750**
Assets repaid or sold	(137,774)	(82,842)	(272,227)	**(492,843)**
Transfers to Stage 1	18,726	(18,726)	−	**−**
Transfers to Stage 2	(25,354)	25,354	−	**−**
Transfers to Stage 3	(13,803)	(223,507)	237,310	**−**
Change in expected credit risk estimation	(54,539)	67,748	36,294	**49,503**
Recovery of allowances for loans written off in prior periods	−	−	109,149	**109,149**
Use of allowance	−	−	(1,881,500)	**(1,881,500)**
Adjustment of interest income	32	−	327,937	**327,969**
As at 31 December 2023	**99,082**	**239,165**	**541,188**	**879,435**

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 2023 was as follows:

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Gross carrying amounts as at 1 January 2023	**6,769,369**	**943,140**	**4,688,941**	**12,401,450**
New assets	727,081	−	−	**727,081**
Assets repaid or sold	(274,587)	(65,975)	(349,436)	**(689,998)**
Transfers to Stage 1	243,340	(243,340)	−	**−**
Transfers to Stage 2	(1,093,258)	1,093,258	−	**−**
Transfers to Stage 3	(404,788)	(595,991)	1,000,779	**−**
Increase/(decrease) in carrying amounts during the period	(291,565)	11,274	412,089	**131,798**
Use of allowance	−	−	(4,373,846)	**(4,373,846)**
Translation differences	−	−	1,388	**1,388**
As at 31 December 2023	**5,675,592**	**1,142,366**	**1,379,915**	**8,197,873**

Credit cards and overdrafts	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2023	**732,054**	**475,632**	**4,458,699**	**5,666,385**
New assets	59,023	−	−	**59,023**
Assets repaid or sold	(31,910)	(16,578)	(230,686)	**(279,174)**
Transfers to Stage 1	95,146	(95,146)	−	**−**
Transfers to Stage 2	(126,143)	126,143	−	**−**
Transfers to Stage 3	(60,508)	(334,766)	395,274	**−**
Change in expected credit risk estimation	(263,686)	301,974	18,180	**56,468**
Recovery of allowances for loans written off in prior periods	−	−	159,328	**159,328**
Use of allowance	−	−	(4,373,846)	**(4,373,846)**
Adjustment of interest income	−	−	912,087	**912,087**
Translation differences	6	4	1,345	**1,355**
As at 31 December 2023	**403,982**	**457,263**	**1,340,381**	**2,201,626**

(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 amortised cost (continued)

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 2023 was as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amounts as at 1 January 2023	**12,280**	**22,166**	**68,015**	**945**	**103,406**
Assets repaid or sold	(79)	(1,419)	(1,789)	–	**(3,287)**
Transfers to Stage 1	402	(402)	–	–	**–**
Transfers to Stage 2	(3,151)	3,151	–	–	**–**
Transfers to Stage 3	–	(72)	72	–	**–**
Increase/(decrease) in carrying amounts during the period	(1,228)	(3,053)	35,935	6	**31,660**
Use of allowance	–	–	(4,616)	75	**(4,541)**
Translation differences	29	42	1,757	39	**1,867**
As at 31 December 2023	**8,253**	**20,413**	**99,374**	**1,065**	**129,105**

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses as at 1 January 2022	**730**	**4,423**	**53,470**	**945**	**59,568**
Assets repaid or sold	(4)	(273)	(1,029)	–	**(1,306)**
Transfers to Stage 1	122	(122)	–	–	**–**
Transfers to Stage 2	(125)	125	–	–	**–**
Transfers to Stage 3	–	(13)	13	–	**–**
Change in expected credit risk estimation	(171)	(292)	12,119	(127)	**11,529**
Recovery of allowances for loans written off in prior periods	–	–	19,827	–	**19,827**
Use of allowance	–	–	(4,616)	75	**(4,541)**
Adjustment of interest income	–	–	5,583	133	**5,716**
Translation differences	7	15	1,570	39	**1,631**
As at 31 December 2023	**559**	**3,863**	**86,937**	**1,065**	**92,424**

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 2023 was as follows:

Car loans	Stage 3
Gross carrying amounts as at 1 January 2023	**188**
Increase in carrying amounts during the period	4
Translation differences	2
As at 31 December 2023	**194**

Car loans	Stage 3
Expected credit losses as at 1 January 2023	**188**
Change in expected credit risk estimation	(1,891)
Recovery of allowances for loans written off in prior periods	1,888
Adjustment of interest income	8
Translation differences	1
As at 31 December 2023	**194**

(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 amortised cost (continued)

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	–	**–**
Increase/(decrease) 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 derecognition and other changes within the existing contractual terms and conditions	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 derecognition 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 amortised 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	**–**
Increase/(decrease) 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	**–**
Increase/(decrease) 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**

(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 amortised cost (continued)

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**

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	**–**
Increase/(decrease) 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**

(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 amortised cost (continued)

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	–	**–**
Increase/(decrease) 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**

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
Gross carrying amounts as at 1 January 2022	**176**
Increase/(decrease) in carrying amounts during the period	(1)
Translation differences	13
As at 31 December 2022	**188**

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

(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 amortised cost (continued)

The use of allowance for the year ended 31 December 2023 amounted to UAH 9,065,575 thousand (2022: UAH 1,995,969 thousand). The recovery of debt at the cost of loan sales during the year ended 31 December 2023 amounted to UAH 283 393 thousand (2022: UAH 2,747 thousand).

The amounts due under loan contracts on the financial assets written off during the year ended 31 December 2023 and for which the Bank continued working on debt recovery amounted to UAH 7,829,921 thousand (31 December 2022: UAH 1,408,296 thousand).

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 derecognition 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 derecognition, 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:

	2023	**2022**
Loans and advances to customers modified during the period		
Amortised cost before modification	2,996,143	3,541,498
Net modification gain (loss)	(940)	9,541
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	23,032	358,640

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 corporate lending: real estate and movable items, inventories, and 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 2023, loans were secured by customer deposits with the Bank with the carrying amount of UAH 504,494 thousand (31 December 2022: UAH 497,085 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 borrowers. 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.

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Credit quality of the loan portfolio (continued)

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. High rating can also be assigned to transactions with full deposit coverage.

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 2023 was as follows:

As at 31 December 2023	Stage	High rating	Standard rating	Below standard rating	Impaired	Total
Loans and advances to customers:						
- Corporate loans	Stage 1	15,549,467	16,135,180	1,086,392	−	**32,771,039**
	Stage 2	152,711	3,109,615	1,713,337	−	**4,975,663**
	Stage 3	−	−	−	1,028,295	**1,028,295**
	POCI	−	−	−	9,787	**9,787**
- Finance leases	Stage 1	287,971	898,918	236,777	−	**1,423,666**
	Stage 2	34,214	57,304	52,706	−	**144,224**
	Stage 3	−	−	−	111,070	**111,070**
Total		**16,024,363**	**20,201,017**	**3,089,212**	**1,149,152**	**40,463,744**

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 of retail loans by days past due as at 31 December 2023 was as follows:

As at 31 December 2023	Stage	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	181-365 days	More than 365 days	Total
	Stage 1	3,221,560	59,527	366	1	7	1	−	**3,281,462**
- Consumer loans	Stage 2	389,395	58,087	25,268	9,601	−	−	−	**482,351**
	Stage 3	1,394	566	363	349	9,809	10,521	3,109	**26,111**
- Credit cards and overdrafts	Stage 1	4,489,088	728,201	54,223	25	46	17	10	**5,271,610**
	Stage 2	531,197	90,054	22,245	28,206	13,389	3	9	**685,103**
	Stage 3	2,212	1,423	494	497	10,049	17,224	7,635	**39,534**
	Stage 1	7,471	223	−	−	−	−	−	**7,694**
- Mortgage loans	Stage 2	15,629	891	16	14	−	−	−	**16,550**
	Stage 3	359	63	104	−	266	2,671	8,974	**12,437**
Total		**8,658,305**	**939,035**	**103,079**	**38,693**	**33,566**	**30,437**	**19,737**	**9,822,852**

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
	Stage 1	2,484,458	141,937	103	49	29	9	−	**2,626,585**
- Consumer loans	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**
	Stage 1	11,504	46	−	−	−	−	−	**11,550**
- Mortgage loans	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**

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.

Concentration of loans to customers

As at 31 December 2023, the gross carrying value of loans in the amount of UAH 7,728,826 thousand issued to the Bank's 20 top borrowers represented 13% of the gross loan portfolio, before allowances (31 December 2022: loans in the total of UAH 9,589,511 thousand issued to the Bank's 20 top borrowers represented 16% of the gross loan portfolio, before allowances).

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Concentration of loans to customers (continued)

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:

	2023	2022
Trade and agency services	16,452,466	13,210,594
Food processing industry and agriculture	15,763,597	12,783,917
Individuals	12,996,531	18,297,813
Transport, communication services, and infrastructure	3,900,054	2,693,500
Mining and energy	2,561,504	2,753,853
Construction and real estate	2,212,927	2,717,137
Metallurgy	1,803,854	1,554,029
Engineering	1,143,513	3,111,835
Woodworking	879,372	715,011
Chemical industry	686,306	466,239
Non-banking financial institutions	82,200	106,173
Other	992,209	803,347
Total loans and advances to customers, before allowance for expected credit losses	**59,474,533**	**59,213,448**

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 2023 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	18,127,213	33,480,643	22,429,022	13,590,836
Finance leases	1,492,118	2,805,340	186,842	153,001
Consumer loans	134	1,902	3,789,790	451
Credit cards and overdrafts	–	–	5,996,247	–
Mortgage loans	25,616	135,573	11,065	35,516
Car loans	–	267	–	–
Total	**19,645,081**	**36,423,725**	**32,412,966**	**13,779,804**

As at 31 December 2023, 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 366,093 thousand for the over-collateralized assets and UAH 1,696,274 thousand for the under-collateralized assets (31 December 2022: UAH 944,896 thousand for the over-collateralized assets and UAH 1,886,548 thousand for the under-collateralized assets).

(In Ukrainian Hryvnias and in thousands)

9. Loans and advances to customers (continued)

Concentration of loans to customers (continued)

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 2023, the net book value of collateralized loans to customers that were credit-impaired (Stage 3 and POCI) amounted to UAH 1,227,236 thousand (31 December 2022: UAH 1,887,130 thousand), and the fair value of the corresponding collateral received for the purpose of reducing potential losses under those loans amounted to UAH 5,083,783 thousand (31 December 2022: UAH 5,839,002 thousand).

The analysis of finance leases receivable was as follows:

	2023	**2022**
Up to 1 year	1,222,702	1,284,673
From 1 to 2 years	595,463	629,212
From 2 to 3 years	241,765	145,138
From 3 to 4 years	42,509	59,696
From 4 to 5 years	13,984	2,260
Total gross investments in finance leases	**2,116,423**	**2,120,979**
Unearned future finance income on finance leases	(362,727)	(480,832)
Net investments in finance leases	**1,753,696**	**1,640,147**
Current investments in finance leases	377,263	236,469
Non-current investments in finance leases	1,376,433	1,403,678
Net investments in finance leases	**1,753,696**	**1,640,147**

(In Ukrainian Hryvnias and in thousands)

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

	Buildings	Leasehold impro-vements	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 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	**1,313,310**
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**	**1,698,681**	**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**
Additions	8,771	75,572	–	333,265	5,492	**423,100**	890,224	**1,313,324**
Disposals/write-offs	(3,269)	(328)	–	(74,202)	–	**(77,799)**	(136)	**(77,935)**
Transfers to another category	989	3,338	–	19,567	(23,894)	**–**	–	**–**
Depreciation and amortization charges	(23,502)	(49,457)	–	(330,475)	–	**(403,434)**	(1,224,587)	**(1,628,021)**
Carrying amounts as at 31 December 2023	**751,132**	**135,986**	**17,120**	**742,316**	**5,689**	**1,652,243**	**320,312**	**1,972,555**
Cost or revalued amounts as at 31 December 2023	**1,149,209**	**376,402**	**17,120**	**2,097,208**	**5,689**	**3,645,628**	**2,536,653**	**6,182,281**
Accumulated depreciation/ amortization	(398,077)	(240,416)	–	(1,354,892)	–	**(1,993,385)**	(2,216,341)	**(4,209,726)**
Carrying amounts as at 31 December 2023	**751,132**	**135,986**	**17,120**	**742,316**	**5,689**	**1,652,243**	**320,312**	**1,972,555**

(In Ukrainian Hryvnias and in thousands)

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

As at 31 December 2023, property, plant, and equipment and intangible assets, other than goodwill, included assets at historical or revalued amounts in the amount of UAH 1,768,763 thousand (31 December 2022: UAH 742,846 thousand) that were fully depreciated and amortised. The Bank continues using those assets.

As at 1 December 2023, an independent valuation of the Bank’s own buildings was carried out, based on which the Bank’s management concluded that the fair value of buildings did not differ significantly from the carrying amounts. When performing the valuation, the independent appraiser used judgments and estimates to determine the buildings’ equivalents used in the application of the market analog method, useful lives of the assets to be revalued, and capitalization rates used in the application of the income approach.

As at 31 December 2023, the carrying value of buildings and works of art would have amounted to UAH 302,014 thousand (31 December 2022: UAH 307,999 thousand), had those assets been measured using the cost model. The amount reconciled with the carrying amounts of buildings was as follows:

	2023	**2022**
Buildings at revalued amounts in the statement of financial position	751,132	768,143
Revaluation surplus for buildings presented in equity, before tax	(452,044)	(463,070)
Buildings at cost, less accumulated depreciation and impairment	**299,088**	**305,073**
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	**302,014**	**307,999**

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

	2023	**2022**
Fair value of investment property at the beginning of the period	**59,168**	**62,099**
Sales	−	(1,962)
Transfers to the category of owner-occupied buildings	−	(720)
Gains on revaluation at fair value	−	1,377
Losses on revaluation at fair value	−	(1,626)
Fair value of investment property at the end of the period	**59,168**	**59,168**

The rental income received from investment property for the year ended 31 December 2023 amounted to UAH 5,549 thousand (2022: UAH 5,089 thousand) (Note 22). Operating expense and expenses on maintenance of investment property for the year ended 31 December 2023 amounted to UAH 3,309 thousand (2022: UAH 3,969 thousand).

11. Right-of-use assets

Movements in the right-of-use assets for the year ended 31 December 2023 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2023	**259,282**
Additions	714
Reassessment of cash flows and lease terms and lease modifications	113,872
Disposals	(3,252)
Depreciation	(136,586)
Carrying amounts as at 31 December 2023	**234,030**

(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 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**

During the years ended 31 December 2023 and 2022, 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 2023 relating to the low-value leases to which the exemption for recognition was applied amounted to UAH 5,400 thousand (2022: UAH 4,967 thousand). During the years ended 31 December 2023 and 2022, 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:

	2023	2022
Other financial assets		
Settlements on card transactions	1,699,556	1,434,483
Accrued income and settlements	381,449	101,757
Receivables on transfers and payments	376,883	887,476
Foreign currency purchases	57,964	12,790
Settlements on cooperation agreements	11,633	4,366
Other financial assets	203,357	79,441
Allowance for impairment	(119,090)	(100,616)
Total other financial assets	**2,611,752**	**2,419,697**

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

	2023	2022
Other non-financial assets		
Prepayments for property, plant, and equipment and intangible assets, other than goodwill	102,373	181,650
Prepaid expenses, including insurance of assets	73,384	44,257
Repossessed property	66,387	102,115
Other taxes prepaid	25,922	23,079
Prepayments for services	11,416	11,384
Bank metals	362	303
Other non-financial assets	6,403	5,209
Allowance for impairment	(12,445)	(37,191)
Total other non-financial assets	**273,802**	**330,806**

(In Ukrainian Hryvnias and in thousands)

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

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

	2023	2022
Allowance for impairment as at 1 January	**100,616**	**24,906**
Charges to allowance for impairment	27,823	74,614
Use of allowance	(12,688)	(7,248)
Recovery of allowance	131	3
Effect of changes in exchange rates	3,208	8,341
As at the end of the period	**119,090**	**100,616**

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

	2023	2022
Allowance for impairment as at 1 January	**37,191**	**6,337**
Charges to allowance for impairment	(24,339)	30,823
Use of allowance	(429)	(64)
Recovery of allowance	22	95
As at the end of the period	**12,445**	**37,191**

13. Due to the Central Bank

As at 31 December 2022, the Bank had borrowings from the National Bank of Ukraine in the carrying amount of UAH 4,188,304 thousand. In Quarter 1 of 2023, the Bank early repaid the amounts due to the National Bank of Ukraine in full.

14. Due to other banks

	2023	2022
Current accounts of other banks		
- Domestic	370,536	498,903
Total current accounts of other banks	**370,536**	**498,903**
Term deposits of other banks		
- Domestic	2,246,153	1,825,319
Total term deposits of other banks	**2,246,153**	**1,825,319**
Loans to other banks		
- Domestic	100,038	–
Total loans to other banks	**100,038**	**–**
Total due to other banks	**2,716,727**	**2,324,222**

As at 31 December 2023, the funds placed by 10 largest banks in the amount of UAH 2,472,187 thousand made up 91% of total amounts due to other banks (31 December 2022: UAH 2,110,885 thousand, 91% of total amounts due to other banks).

(In Ukrainian Hryvnias and in thousands)

15. Customer accounts

	2023	2022
Legal entities		
- Current accounts	53,960,152	42,466,450
- Term deposits and saving accounts	24,912,364	9,702,967
Individuals		
- Current accounts	21,940,934	17,511,955
- Term deposits and saving accounts	25,729,372	20,618,516
Total customer accounts	**126,542,822**	**90,299,888**

As at 31 December 2023, the deposits of 10 top customers placed with the Bank in the amount of UAH 5,343,727 thousand made up 4% of customer accounts (31 December 2022: UAH 3,456,605 thousand made up 4%).

As at 31 December 2023, included in customer accounts were deposits in the amount of UAH 504,494 thousand and UAH 134,853 thousand (31 December 2022: UAH 497,085 thousand and UAH 127,430 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 2,551,786 thousand (31 December 2022: UAH 2,263,307 thousand) was held as collateral under import letters of credit, guarantees, and promissory notes endorsements (Note 27).

The customer accounts by economic sectors were as follows:

	2023	2022
Individuals	47,670,306	38,130,471
Trade and agency services	24,716,290	16,558,420
Mining and energy	13,301,666	8,916,083
Transport, communication services, and infrastructure	9,772,647	7,796,235
Construction and real estate	6,217,104	3,327,766
Engineering	5,371,016	2,296,649
Food processing industry and agriculture	3,736,670	2,826,062
Non-banking financial institutions	2,846,907	1,512,106
Metallurgy	2,120,495	1,450,489
Computer programming	1,690,329	1,475,243
Chemical industry	868,647	796,339
Woodworking	789,441	342,433
Other	7,441,304	4,871,592
Total customer accounts	**126,542,822**	**90,299,888**

16. Lease liabilities

Movements in lease liabilities for the year ended 31 December 2023 were as follows:

	Buildings and premises
Carrying amounts as at 1 January 2023	**274,383**
Additions	714
Reassessment of cash flows and lease terms and lease modifications	113,379
Disposals	(3,252)
Interest expense	39,664
Lease payments made	(158,594)
Carrying amounts as at 31 December 2023	**266,294**

(In Ukrainian Hryvnias and in thousands)

16. Lease liabilities (continued)

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**

17. Other financial and non-financial liabilities

The balances of other financial liabilities were as follows:

	2023	2022
Other financial liabilities		
Settlements	1,398,485	968,606
Accounts payable on operations with plastic cards	564,246	1,115,278
Allowance for commitments, guarantees, and letters of credit (Note 27)	195,085	262,470
Accounts payable on purchases of assets	30,604	199,847
Total other financial liabilities	**2,188,420**	**2,546,201**

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

	2023	2022
Other non-financial liabilities		
Amounts payable to employees	588,828	227,853
Deferred income	159,295	138,462
Contributions to the Individual Deposit Guarantee Fund	75,917	60,711
Other taxes payable	46,264	29,777
Allowance for other losses	37,793	52,493
Accounts payable on services	913	38,832
Other non-financial liabilities	1	2,906
Total other non-financial liabilities	**909,011**	**551,034**

(In Ukrainian Hryvnias and in thousands)

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 2023, 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	101,852	(102,265)	792	(1,205)
Placement of UAH/attraction of EUR	21,153	(21,137)	16	–
Attraction of UAH/placement of USD	866,325	(858,623)	7,702	–
Attraction of USD/placement of EUR	–	(45)	–	(45)
Total forward currency contracts	**989,330**	**(982,070)**	**8,510**	**(1,250)**

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)
Placement of UAH/attraction of EUR	352,416	(371,361)	–	(18,945)
Total forward currency contracts	**1,806,164**	**(1,899,971)**	**–**	**(93,807)**

19. Share capital and reserves

As at 31 December 2023 and 2022, 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 2023, all shares were fully paid and registered.

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.

(In Ukrainian Hryvnias and in thousands)

20. Interest income and expense

	2023	2022
Interest income calculated using effective interest rate method		
Loans to customers	10,662,313	10,723,398
Securities measured at fair value through other comprehensive income and deposit certificates classified as cash and cash equivalents	8,610,592	3,620,090
Due from banks	643,465	169,290
	19,916,370	**14,512,778**
Other interest income		
Finance leases to corporate customers	348,180	382,595
Securities measured at fair value through profit or loss	–	8
Total interest income	**20,264,550**	**14,895,381**
Interest expense		
Term deposits and saving accounts	(5,090,797)	(2,004,903)
Current accounts	(2,632,627)	(1,621,009)
Due to the National Bank of Ukraine	(122,214)	(1,053,423)
Lease liabilities	(39,664)	(41,362)
Due to other banks	(13,764)	(20,206)
Total interest expense	**(7,899,066)**	**(4,740,903)**
Net interest income	**12,365,484**	**10,154,478**

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

21. Commission income and expense

	2023	2022
Payment cards	1,655,640	1,434,767
Settlement transactions with customers	854,486	521,542
Cash operations	580,715	345,679
Conversion operations	364,214	272,863
Documentary operations	249,520	277,313
Servicing loans, including under cooperation agreements	205,501	336,420
Fiduciary activities	8,498	6,168
Other	16,954	10,262
Commission income	**3,935,528**	**3,205,014**
Payment cards	(1,271,660)	(806,596)
Agency agreements	(335,197)	(242,562)
Purchase and collection of cash	(90,158)	(33,697)
Settlement transactions	(78,173)	(56,781)
Documentary operations	(13,666)	(43,392)
Fiduciary activities	(2,265)	(580)
Other	(172)	(143)
Commission expenses	**(1,791,291)**	**(1,183,751)**
Net commission income	**2,144,237**	**2,021,263**

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

(In Ukrainian Hryvnias and in thousands)

22. Other gains (losses)

	2023	2022
Result on modification of leases	20,987	52,485
Income on disposal of property, plant, and equipment	19,935	15,464
Result on modifications of financial assets that does not lead to derecognition	18,030	85,232
Income on sales of commemorative coins	16,632	11,104
Other rental income	13,669	18,688
Rental income on investment properties (Note 10)	5,549	5,089
Penalties received	4,798	5,133
Income on non-repayable payments	3,173	–
Income on insurance consideration received	1,583	1,520
Dividends received	–	10,808
Income on revaluation increase in property, plant, and equipment and non-current assets	–	1,103
Other income	12,412	25,129
Total other gains (losses)	**116,768**	**231,755**

23. Operating expense

	2023	2022
Payroll, employee benefits, and mandatory contributions to the state funds	3,484,624	2,841,894
Depreciation and amortization (Note 10)	1,628,021	841,177
Maintenance of buildings and equipment	351,000	251,338
Contributions to the Individual Deposit Guarantee Fund	280,613	233,779
Advertising and entertainment expenses	230,594	83,260
Depreciation of right-of-use assets	136,586	147,599
Communication services	132,015	113,013
Charity activities	114,809	88,653
Audit and consulting services	111,733	177,870
Rent of premises	84,702	74,220
Expenses related to the workout on repayment of loans	71,401	45,993
Security services	42,125	34,970
State duties and taxes, other than income taxes	15,954	21,142
Staff training	9,044	3,602
Cash lost	16	88,909
Decrease in value of the Bank’s properties	1,364	556
Other	349,207	230,327
Total operating expense	**7,043,808**	**5,278,302**

Included in payroll, employee benefits, and mandatory contributions to the state funds was the unified social tax in the amount of UAH 513,688 thousand (2022: UAH 450,323 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 2023 in the amount of UAH 5,400 thousand (2022: UAH 4,967 thousand) (Note 11).

24. Income taxes

The income tax expense comprised the following:

	2023	2022
Current tax expense	4,524,082	–
Deferred tax (benefit)/expense	(242,124)	(87,615)
Income tax expense/(benefits) for the reporting period	**4,281,958**	**(87,615)**

(In Ukrainian Hryvnias and in thousands)

24. Income taxes (continued)

In November 2023, changes were introduced to the Tax Code of Ukraine to increase the tax rate on banks' profits. The rate was increased from 18% to 25%, and the changes took effect on 1 January 2024. Alongside with this, a special increased tax rate on banks' profits for 2023 was established in the amount of 50%. As at 31 December 2023 an amount of current tax liabilities to be paid is UAH 3,200,277 thousand.

The Bank's income received in the year ended 31 December 2023 was taxable at the rate of 50% (2022: 18%). The reconciliation of expected and actual tax expense is provided below:

	2023	2022
Profit/(loss) before income tax	**8,237,433**	**(485,338)**
Theoretical tax expense at the applicable statutory tax rate	4,118,717	(87,361)
Tax effect of deductible or non-taxable items:		
- Non-taxable income and other income exempt from taxation	–	(9,521)
- Non-deductible expenses	56,732	9,267
- Effect of changes in tax rates (+/-)	106,509	–
Income tax expense/(benefits) for the reporting period	**4,281,958**	**(87,615)**

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.

As at 31 December 2023 and 2022, deferred tax assets and liabilities and their movements for the respective years were as follows:

	31 December 2022	Credited/ (charged) to other comprehen-sive income	Credited/ (charged) to profit or loss	31 December 2023
Tax effect of deductible and taxable temporary differences				
Expected credit losses on loan commitments	63,388	–	(2,709)	60,679
Securities measured at fair value through other comprehensive income	76,905	(546,002)	–	(469,097)
Property, plant, and equipment, and intangible assets, and investment property	44,668	(19,720)	237,691	262,639
Tax losses before carry forward	18,364	–	7,142	25,506
Estimated net deferred tax assets/(liability)	**203,325**	**(565,722)**	**242,124**	**(120,273)**
Deferred tax assets/(liability)	**203,325**	**(565,722)**	**242,124**	**(120,273)**

	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 intangible assets, 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**

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 Bank’s risk management system is organized by defining a clear risk management process through the establishment of risk appetites and risk limits for each type of significant risks, the purpose of which is to implement a systematic process of identifying, measuring, monitoring, controlling, reporting, and mitigating all types of risks at all organizational levels of the Bank.

Key responsibilities for ensuring effective risk management are performed by the following structural units:

1) Risk management units subordinated to the CRO (the Chief Risk Manager in the Bank):

   i. Credit risks: Corporate Customer Risk Management Department; Small Business Risk Management Department; Retail Risk Management Department; Microlending Risk Management Department; Pledged Property Work Department;
   ii. Operating risk, market risk, financial institution risk, and liquidity risk: General Banking Risk Management Department.

2) Compliance Control Department subordinated to the CCO (the Chief Compliance Manager).

The risk management units of the Bank are reporting and subordinated to the CRO of the Bank, the CRO as well as the CCO is reporting and subordinated to the Supervisory Board of the Bank as the risk management system participants.

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 the Regulation on Collegial Bodies, the Credit Council 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 recent 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/will exceed 1% of the regulatory capital of the Bank for individuals or 3% of the Bank’s regulatory capital for legal entities (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);
- Declaration of Risk Appetite.

The Declaration of Risk Appetite determines:

- Aggregate level of risk appetite and the types of risks that the Bank intends to accept and maintain in order to achieve business goals;
- Maximum level of the risk acceptable for the Bank (Risk Capacity);
- Quantitative and qualitative indicators of risk appetite which take into account capital adequacy, liquidity, operating profitability, and cost of risk;

25. Risk management (continued)

Introduction (continued)

- Risk appetite level for each type of risk (individual level) and a minimum list of quantitative and qualitative indicators of risk appetite for each type of risk.

For 2023, the Bank has distinguished the following 12 significant risks:

- Credit risk of corporate customers (including customers of corporate, small, and micro business);
- Credit risk of retail customers;
- Credit risk of financial institutions;
- Liquidity risk;
- Interest rate risk of the banking book;
- Price risk of UAH-denominated portfolio of DGLBs (within market risk);
- Price risk of Sovereign bonds G7 (within market risk);
- Foreign currency risk (within market risk);
- Risk of default of DGLB issuer;
- Operating risk;
- Compliance risk;
- Risk of funds laundering/financing terrorism (within compliance risk).

In 2023, the Supervisory Board approved the Declaration of Sustainable Development of JSC "FUIB", which determines the strategic goals, principles, and organization structure of the Bank's sustainable development. In the Declaration of Risk Appetite, JSC "FUIB" took into account the negative manifestation of climate risks in connection with the existing significant risks of the Bank: credit and operating risks.

In 2023, the Supervisory Board continued to focus on the risks associated with the negative indicators of military actions: reviewed the results of stress testing in respect of all significant risks on a quarterly basis and assessed the adequacy of funds to cover those risks and the regular report on the negative consequences of the war.

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 of the Bank.

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 Regulation on Collegial Bodies, the Credit Council and the Credit Committee. 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 delegates 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, limit parameters of credit products for retail customers and sets limits for transactions with other banks and financial institutions. The Bank's Credit Council meets twice a week.

25. Risk management (continued)

Introduction (continued)

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 Regulation on Collegial Bodies of JSC "FUIB", the Credit Council and the Credit Committee 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, ensuring cyber security, develop, approve, and implement measures aimed at ensuring the Bank's going concern.

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 and risk limits for a year.

25. Risk management (continued)

Introduction (continued)

The ORMC also takes decisions on the administration 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:

- The Information Security Management System;
- The Fraud Risk Management System;
- The Physical Security Management System;
- The Continuity Operation System;
- The Third-Party Risk Management System;
- The Going Concern Ensuring 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 vertical 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 within the risk management vertical 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 decisions 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 works out worst-case scenarios that would occur in the event of extraordinary events, the probability of which is very low (including military actions).

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.

25. Risk management (continued)

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, export 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.

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).

25. Risk management (continued)

Credit risk (continued)

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 amortised 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;
- A customer included in “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) 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.

25. Risk management (continued)

Credit risk (continued)

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) 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 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).

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.

25. Risk management (continued)

Credit risk (continued)

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.

Impact of the war against russia on market risks

During the reporting period, the war against the russian federation had the following impact on the Bank’s market risks:

Liquidity risk. During 2023, the Bank had significant surplus liquidity by major currencies: UAH, USD, EUR. As at 31 December 2023, internal liquidity ratios, according to the methodology for assessing sufficiency of internal liquidity within ILAAP process, were performed with a significant margin. The situation in the banking system of Ukraine as a whole during 2023 was also characterized by a significant liquidity surplus placed in the certificates of deposit issued by the NBU.

Interest rate risk. In 2023, the period of interest rate growth ended, and its gradual decline began. The inflation rate decreased from 26.6% in the previous year to 5.1%, accordingly, the NBU reduced the discount rate from 25% to 15%. This affected interest rates on certificates of deposit and prompted the Bank to place funds in DGLBs that promised fixed income. There is also a trend in place to lower interest rates on customer deposits.

Foreign currency risk. In 2023, the official exchange rate of UAH against USD did not fluctuate significantly, and accordingly, there were no significant fluctuations in the exchange rates of UAH against other currencies. The situation was fully controlled by the NBU, the level of foreign exchange reserves increased from USD 28.4 billion to USD 40.5 billion during 2023, which enables the NBU to timely enter the foreign exchange market with interventions and satisfy customer demand for currency.

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.

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 2023, 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.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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 2023. 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 2023	**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 other banks	1,192,444	–	–	1,523,823	500	**2,716,767**
Customer accounts	105,565,139	11,393,769	7,548,460	2,414,017	495,811	**127,417,196**
Derivative financial instruments repayable through the delivery of underlying assets:						
- Contractual amounts payable	14,829	–	–	–	–	**14,829**
- Contractual amounts receivable	(13,579)	–	–	–	–	**(13,579)**
Lease liabilities	18,526	26,914	42,064	74,003	153,969	**315,476**
Other financial liabilities	2,188,420	–	–	–	–	**2,188,420**
Total undiscounted financial liabilities	**108,965,779**	**11,420,683**	**7,590,524**	**4,011,843**	**650,280**	**132,639,109**

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 other 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**

The table below summarizes the contractual maturities of the Bank’s 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**
2023	664,237	799,073	983,493	3,649,744	942,270	**7,038,817**
2022	317,990	1,431,050	1,079,387	2,314,211	1,300,492	**6,443,130**

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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 2023 (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	33,747,952	–	–	–	–	**33,747,952**
Loans and advances to banks	24,278	956,782	1,059,391	2,165,714	7,340	**4,213,505**
Investments in securities	12,836,810	13,828,150	6,230,852	7,958,247	17,301,466	**58,155,525**
Loans and advances to customers	13,727,499	10,036,344	9,914,572	9,985,364	8,394,268	**52,058,047**
Derivative financial assets	8,510	–	–	–	–	**8,510**
Other financial assets	2,611,752	–	–	–	–	**2,611,752**
Total financial assets	**62,956,801**	**24,821,276**	**17,204,815**	**20,109,325**	**25,703,074**	**150,795,291**
Liabilities						
Due to other banks	1,192,404	–	–	1,523,823	500	**2,716,727**
Customer accounts	105,286,163	11,083,220	7,347,076	2,341,440	484,923	**126,542,822**
Lease liabilities	18,799	33,238	33,063	46,987	134,207	**266,294**
Derivative financial liabilities	1,250	–	–	–	–	**1,250**
Other financial liabilities	2,188,420	–	–	–	–	**2,188,420**
Total financial liabilities	**108,687,036**	**11,116,458**	**7,380,139**	**3,912,250**	**619,630**	**131,715,513**
Potential off-balance sheet liabilities	7,038,817	–	–	–	–	**7,038,817**
Liquidity gap arising from financial instruments	**(52,769,052)**	**13,704,818**	**9,824,676**	**16,197,075**	**25,083,444**	**12,040,961**

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 2023 amounted to UAH 25,729,372 thousand (2022: UAH 20,618,516 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
2023	8,075,419	8,405,855	6,619,637	2,146,093	482,368	**25,729,372**
2022	5,444,185	7,735,312	2,374,750	4,728,487	335,782	**20,618,516**

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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 other 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**

As at 31 December 2023 loans and advances to banks includes cash coverage for difference transactions placed in other banks in the amount of UAH 4,213,505 thousand (31 December 2022: UAH 3,490,916 thousand), which disclosed under contractual terms but can be prematurely withdrawn.

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 in case of further deterioration of the economic situation.

As at 31 December 2023, the Bank had a cumulative inconsistency between the 12-month maturities of financial assets and liabilities in the amount of UAH 13,042,483 thousand (31 December 2022: UAH 4,598,966 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 17,301,466 thousand with the maturity over 12 months that may be early sold by the Bank, if needed (31 December 2022: UAH 5,683,054 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.

In 2023, the Bank developed new scenarios for calculating the interest rate risk of the banking book using the NII method (the impact of interest rate risk on net interest income). The historical method is used to calculate shock changes in interest rates. The period of interest rate changes in 2022-2023 was chosen as a stressful period. For the current calculation of the interest rate risk, the Bank uses the actual changes in the interest rate over the previous year. As at 31 December 2023, the interest rate risk of the banking book calculated according to the standard scenario of actual changes in interest rates over the previous year was UAH 425 million (decrease of net interest income). A similar calculation for 31 December 2022 amounted to UAH 1,312 million (decrease of net interest income). During 2023, a reduction was observed in the interest rate risk due to a decrease in the annual volatility of interest rates.

As at 31 December 2023, had there been increase in the yield to maturity by 1 percentage point, the revaluation surplus for securities in equity would lower by UAH 316,270 thousand (31 December 2022: by UAH 91,324 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.

(In Ukrainian Hryvnias and in thousands)

25. Risk management (continued)

Foreign currency risk (continued)

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 bank 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
- 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	2023	2022
Currency risk, without the diversification considered		
USD	66,686	14,873
EUR	115,409	9,707
Other currencies	20,078	6,557
Total currency risk, without the diversification considered	**202,173**	**31,137**
Diversification effect	(176,162)	(24,227)
Currency risk, with the diversification considered	**26,011**	**6,910**

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. 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 accordance with the internal procedures.

The Operating Risk Management System includes, in particular:

- Single classifier of operating risks and the internal database of operating risk events (where the war related risks are included in force-majeure circumstances);
- 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.

25. Risk management (continued)

Operating risk (continued)

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.

The ORMC approves, on a quarterly basis, a list of the Bank's critical personnel responsible for fulfilling critical functions in emergencies.

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.

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.

(In Ukrainian Hryvnias and in thousands)

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 amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2023			2022		
	Carrying amount	**Fair value**	**Difference**	**Carrying amount**	**Fair value**	**Difference**
Financial assets						
Cash and cash equivalents	33,747,952	33,747,952	−	46,455,869	46,455,869	−
Loans and advances to banks						
- Term deposits with other banks	4,213,505	4,213,505	−	3,490,916	3,490,916	−
Loans and advances to customers						
- Corporate loans	40,556,235	40,954,071	397,836	32,410,067	32,681,157	271,090
- Finance leases	1,678,960	1,754,829	75,869	1,468,905	1,407,071	(61,834)
- Consumer loans	3,789,924	3,789,924	−	3,112,362	3,112,362	−
- Credit cards and overdrafts	5,996,247	5,996,247	−	6,735,065	6,735,065	−
- Mortgage loans	36,681	28,951	(7,730)	43,838	34,319	(9,519)
Derivative financial assets	8,510	8,510	−	−	−	−
Other financial assets	2,611,752	2,611,752	−	2,419,697	2,419,697	−
Financial liabilities						
Due to the Central Bank	−	−	−	4,188,304	4,188,304	−
Due to other banks:						
- Current accounts of other banks	370,536	370,536	−	498,903	498,903	−
- Term deposits of other banks	2,246,153	2,246,153	−	1,825,319	1,825,319	−
- Borrowings from other banks	100,038	100,038	−	−	−	−
Customer accounts						
- Legal entities	78,872,516	78,950,921	(78,405)	52,169,417	52,192,263	(22,846)
- Individuals	47,670,306	47,736,314	(66,008)	38,130,471	38,153,602	(23,131)
Derivative financial liabilities	1,250	1,250		93,807	93,807	
Other financial liabilities	2,188,420	2,188,420	−	2,546,201	2,546,201	−
Total unrecognized change in unrealized fair value			**321,562**			**153,760**

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.

Financial assets and financial liabilities carried at amortised 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.

(In Ukrainian Hryvnias and in thousands)

26. Fair value disclosures (continued)

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 2023	**Measurement date**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Government debt securities of Ukraine	31 December 2023		30,446,002	–	**30,446,002**
Government debt securities of other countries	31 December 2023	7,476,582	–	–	**7,476,582**
Derivative financial assets	31 December 2023	–	8,510	–	**8,510**
Deposit certificates issued by the NBU	31 December 2023	–	20,225,884	–	**20,225,884**
Property, plant, and equipment – buildings	1 December 2023	–	–	751,132	**751,132**
Works of art	1 December 2016	–	–	17,120	**17,120**
Investment property	1 December 2023	–	–	59,168	**59,168**
Assets the fair value of which is disclosed					
Loans and advances to customers	31 December 2023	–	–	52,524,022	**52,524,022**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2023	–	1,250	–	**1,250**
Liabilities the fair value of which is disclosed					
Customer accounts	31 December 2023	–	–	126,687,235	**126,687,235**

(In Ukrainian Hryvnias and in thousands)

26. Fair value disclosures (continued)

Assets and liabilities measured at fair value

		Fair value measurement			
31 December 2022	**Measurement date**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Government debt securities of Ukraine	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	–	–	43,969,974	**43,969,974**
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**

During the calculation of the fair value of financial assets and liabilities not recorded at fair value, a difference in approaches between 2023 and 2022 was identified. For consistency, disclosures for 2022 have been recalculated.

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.

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 2023 and 2022, 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.

The Verkhovna Rada of Ukraine adopted the Law of Ukraine dated 21 November 2023 No. 3474-IX "On Amendments to the Tax Code of Ukraine on the Features of Taxation of Banks and Other Taxpayers", which came into force on 8 December 2023.

According to the results of the reporting year 2023, the basic income tax rate for the purposes of taxation of banks' profits (including for the payment of advance payments when paying dividends), as well as for the application of the provisions of clause 57.1-1 of article 57 of the Civil Code, is 50%. Starting from 2024, the corporate income tax rate for banks will be 25%.

In addition, the Law prohibits the inclusion of tax losses of previous years in the reduction of the object of taxation in 2023 with the right to take them into account starting from the reporting periods of 2024 until they are fully repaid.

The Bank complies with all requirements of the current tax legislation.

Capital expenditure commitments

As at 31 December 2023, the Bank had capital expenditure commitments in respect of purchases of equipment in the amount of UAH 23,894 thousand (31 December 2022: UAH 4,353 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:

	2023	**2022**
Confirmed import letters of credit	–	180,000
Non-confirmed import letters of credit	245,586	176,979
Cash collateral (Note 15)	–	(123,602)
Total letters of credit, less cash collateral	**245,586**	**233,377**

As at 31 December 2023, the allowance for letters of credit amounted to UAH 2,581 thousand (31 December 2022: UAH 2,434 thousand).

(In Ukrainian Hryvnias and in thousands)

27. Contingencies and other commitments (continued)

Credit related commitments (continued)

The guarantees issued were as follows:

	2023	2022
Guarantees and promissory notes	6,793,231	6,086,151
Cash collateral (Note 15)	(2,551,786)	(2,139,705)
Total guarantees and promissory notes, less cash collateral	**4,241,445**	**3,946,446**

As at 31 December 2023, the allowance for letters of credit amounted to UAH 192,504 thousand (31 December 2022: UAH 260,036 thousand).

As at 31 December 2023, the maximum credit risk exposure for off-balance sheet commitments amounted to UAH 9,792,372 thousand (31 December 2022: UAH 8,047,005 thousand).

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2023 was UAH 34,608,358 thousand (31 December 2022: UAH 29,384,169 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.

Movements in the allowance for credit-related commitments, guarantees, and letters of credit during the year ended 31 December 2023 were as follows:

Commitments, guarantees, and letters of credit	Stage 1	Stage 2	Stage 3	Total
Expected credit losses as at 1 January 2023	**24,759**	**112**	**237,599**	**262,470**
New commitments, guarantees, and letters of credit	14,400	–	–	**14,400**
Repaid commitments, guarantees, and letters of credit	(10,270)	(112)	(72,649)	**(83,031)**
Change in expected credit risk estimation	(849)	27	(8,356)	**(9,178)**
Translation differences	839	–	9,585	**10,424**
As at 31 December 2023 (Note 17)	**28,879**	**27**	**166,179**	**195,085**

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**

(In Ukrainian Hryvnias and in thousands)

27. Contingencies and other commitments (continued)

The analysis of credit related commitments, guarantees, and letters of credit, by credit quality, as at 31 December 2023 was as follows:

As at 31 December 2023	Rating	Stage 1	Stage 2	Stage 3	Total
Letters of credit issued by the Bank					
Corporate customers	High rating	60,443	−	−	**60,443**
Corporate customers	Standard rating	185,143	−	−	**185,143**
Guarantees issued					
Corporate customers	High rating	2,516,850	161	−	**2,517,011**
Corporate customers	Standard rating	2,293,707	4,224	−	**2,297,931**
Corporate customers	Below standard rating	154,161	1,524	−	**155,685**
Corporate customers	Impaired	−	−	278,055	**278,055**
Banks	From B- to B+	1,543,319	−	−	**1,543,319**
Banks	Unrated	1,230	−	−	**1,230**

The analysis of credit related commitments, guarantees, and letters of credit, by credit quality, 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**

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

As at 31 December 2023, the Bank transferred the securities measured at fair value through other comprehensive income, with the carrying value of UAH 3,860,611 thousand as collateral under a business agreement with the National Bank of Ukraine (31 December 2022: UAH 1,976,508 thousand).

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 2023 and 2022, as well as income and expense for the years ended 31 December 2023 and 2022 were as follows:

As at and for the year ended 31 December 2023	Parent	Entities under common control	Management	Other related parties
Assets				
Loans and advances to customers	–	518,749	179	–
(UAH – interest rate, % p.a.)	–	–	*(38.66)*	–
(USD, EUR – interest rate, % p.a.)	–	*(6.00)*	–	–
Allowance for loan impairment	–	(298,266)	(15)	–
Other financial and non-financial assets	6	13,421	95	–
Liabilities				
Customer accounts	(168)	(16,712,558)	(89,535)	(256,303)
(UAH – interest rate, % p.a.)	–	*(10.39)*	*(13.59)*	*(12.26)*
(USD, EUR – interest rate, % p.a.)	–	*(0.39)*	*(0.75)*	*(1.18)*
Other financial and non-financial liabilities	(2)	(5,318)	(12)	(4)
Credit related liabilities				
Revocable commitments to extend loans	–	32,004	1,062	714
Guarantees and avals	–	1,026,870	–	–
Income/(expense)				
Interest income	–	26,282	25	2
Interest expense	–	(1,088,291)	(3,860)	(9,215)
Commission income	76	149,581	2,704	5,103
Other income	–	432	15	4
Charges to allowance for commitments, guarantees, and letters of credit	–	1,456	–	–
Allowance for loan impairment	–	(109,640)	(6)	1
Operating expense and other income/(expense)	–	(138,768)	(784)	(6)

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
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	–

(In Ukrainian Hryvnias and in thousands)

29. Related party transactions (continued)

As at 31 December 2023, the interest rate on loans to management was the interest rate on credit cards and overdrafts in the amount from 35.88% to 41.88%, after a grace period (as at 31 December 2022: on credit cards and overdrafts in the amount of 35.88%, after a grace period, and for commercial loans, a nominal rate of 0.01% (effective – 49.27%)).

During the year ended 31 December 2023, the Bank was rendered services on development and support of software by a related party in the amount of UAH 833,847 thousand (2022: UAH 639,314 thousand).

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 2023, remuneration to 10 members of the Management Board comprised salaries in the amount of UAH 123,445 thousand (2022: UAH 104,452 thousand), mandatory contributions to the state funds in the amount of UAH 2,653 thousand (2022: UAH 2,594 thousand), and allowance for additional short-term remuneration payment in the amount of UAH 93,869 thousand (2022: UAH 27,803 thousand). For 2023, payments to eight members of the Supervisory Board amounted to UAH 25,465 thousand (2022: UAH 20,560 thousand) and mandatory contributions to the state funds in the amount of UAH 1,393 thousand (2022: UAH 1,297 thousand). For 2023, remuneration to significant persons of the Bank amounted to UAH 3,727 thousand (2022: UAH 2,876 thousand), including mandatory contributions to the state funds in the amount of UAH 531 thousand (2022: UAH 491 thousand) and allowance for payment of additional short-term benefits in the amount of UAH 1,022 thousand (2022: UAH 307 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.

	2023	**2022**
Profit for the reporting period	3,955,475	(397,723)
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)	**276.15**	**(27.77)**

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 2023 and 2022 were as follows:

	Due to the Central Bank	**Lease liabilities**
Carrying amounts as at 31 December 2021	**5,693,029**	**379,968**
Proceeds	500	–
Repayment	(1,500,000)	(113,018)
Other	(5,225)	7,433
Carrying amounts as at 31 December 2022	**4,188,304**	**274,383**
Repayment	(4,200,500)	(122,883)
Other	12,196	114,794
Carrying amounts as at 31 December 2023	**–**	**266,294**

The item "Other" includes accrued and paid interest on due to the Central Bank and lease, modifications of leases 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.

32. Capital

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 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 National Accounting Provisions (Standards) of Ukraine. As at 31 December 2023 and 2022, 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 non-core assets.

Another component of the regulatory capital is additional capital which includes 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, retained earnings of prior years decreased by the amount of uncovered credit risk.

The amount of the additional capital should not exceed the amount of the core capital. In addition, regulatory capital is reduced by the carrying value of unlisted securities and the carrying value of securities not in circulation on stock exchanges.

As at 31 December 2023 and 2022, 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.

33. Events after the reporting period

The Bank has evaluated subsequent events from the reporting date through the date at which the financial statements were available to be issued, and determined there are no items to disclose.

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 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 the martial law in Ukraine, the Individual Deposit Guarantee Fund reimburses each depositor of the bank in full amount (2022: UAH 200 thousand per person).

As at 31 December 2023, the Bank's shareholders were 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 2023, the Bank had five regional centers and 215 outlets in Ukraine (31 December 2022: five regional centers and 213 outlets in Ukraine).

FUIB is a universal bank that has been operating in the Ukrainian financial market for thirty two 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.

Many hopes and expectations were placed on the year 2023. The first year of the war brought many victims and losses. However, alongside with this, Ukraine won a range of confident victories at the front, a coalition of countries aimed at providing military and financial support to Ukraine was formed, which seemed reliable and unshakable. The Ukrainian economy found itself in the situation where millions of people left the country, hundreds of thousands of able-bodied citizens were mobilized to the front, tens of thousands of enterprises were forced to stop operating. The key task of the domestic policy was to transfer the national economy to military lines, create an effective model of mobilization and redistribution of economic resources (financial, labor, material) to meet the needs of the military-defense complex and the Armed Forces as much as possible.

The year of 2023 may be distinguished as the year which allowed attracting unprecedented amounts of military and economic aid from external allies. At the beginning of the war, Ukraine succeeded in consolidating strong international support, both in terms of obtaining weapons and financial aid. In the period from February 2022 to November 2023, the allied states announced the provision of military, financial, and humanitarian aid in the amount of more than EUR 255 billion (data from the Kiel Institute), of which almost 100 billion referred to military aid. The total aid amounted to about 85% of GDP each year. In fact, as at 15 December 2023, the state budget received USD 70.6 billion of grant and loan financial assistance. 42 countries have become donors of Ukraine, as well as European institutions, the IMF, and the World Bank.

Ukraine's economy is gradually recovering from the initial war shock. The decline in production has been stopped, new technological processes are being established, and the real sector is being converted. In 2023, the real GDP of Ukraine grew, according to various estimates, by 5%-5.5%. This is a recovery growth after a sharp decline of 28.8% in 2022. Despite the recovery, GDP is still about a quarter smaller than in 2021.

Thanks to the sufficient inflow of international aid, the timely introduction of a fixed exchange rate and currency restrictions, Ukraine succeeded in maintaining currency stability and even replenishing foreign exchange reserves to a record level – more than 5 months of imports or almost USD 39 billion as at 1 December 2023. However, the currency balance remains unstable. The main risk is a large negative trade balance of USD 31 billion based on the performance for the 10 months of 2023, primarily due to the growth in the economy's import needs, the blocking of Ukrainian exports, problems with the return of foreign exchange earnings.

In 2023, amendments were signed to the Memorandum with the group of official creditors of Ukraine from the G7 countries and the Paris Club regarding the suspension of payments on the official debt until the end of March 2027. Similar amendments to the current agreements were also signed under some projects implemented in Ukraine by international financial organizations. At the end of 2023, the volume of international aid inflows to Ukraine decreased. There is a need to shape a holistic vision of the mechanism for attracting international aid to Ukraine's needs. It is critical to work out and adopt a set of solutions that would make it possible to use the received resources as efficiently as possible to minimize the risks associated with the consequences of the Russian aggression, and direct them to the programs on restoration and reconstruction of the country.

The Government of Ukraine has started the transfer of domestic industry to military lines. In 2023, the capacity of the domestic defense-industrial complex ("DIC") increased four times compared to 2022 and, in 2024, it is expected to increase by another 6 times.

The inflation at the end of 2023 decreased to 5% in annual terms, while, a year ago, its indicators reached almost 30%.

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 9 years of reforms and timely anti-crisis measures in the course of military operations. In general, the banking system steadily responded not only to the first military challenges, maintaining controllability and continuity of payments, but also held its own positions over the long term. Banks succeeded in maintaining the flow of public funds into their accounts and adapting their operating processes to the fall and winter missile strikes and blackouts. The banking system remains stable, sufficiently capitalized, liquid, and profitable. The war generally has not had a negative impact on the state of the banking system. The indicators of capital adequacy and liquidity many times exceed the statutory values, and the net profit amounted to about UAH 150 billion based on the performance for 2023. Thus, the banking system has a significant potential for lending expansion, which is an important factor in economic recovery.

According to the preliminary estimates to be supported by annual audits, in 2023, solvent banks received UAH 86.5 billion in net profits. This is nearly four times the 2022 figure and by 12% higher than the 2021 performance, before the full-scale invasion. The banks' operating profits increased moderately: operating income for the year increased by 15% compared to the previous year, net operating profit before charges to provisions – by 19%. The driving force behind the sector's income growth remains the increase in interest income from both highly liquid assets and lending. The main factor behind the significant difference in profitability, if compared to the previous year, was significantly smaller charges to provisions for losses from active operations, which decreased by 86% over the year. In general, since the beginning of the full-scale invasion, banks have created provisions in the amount of UAH 133 billion, of which, in 2023, only UAH 17 billion.

In December 2023, according to the amended legislation, banks additionally accrued the annual amount of income tax based on the performance for 2023 taken as a whole at an increased rate of 50%. The return on capital of the banking sector as at 1 January 2024 amounted to 31.6%. A year ago, this figure was 9.7%. It should be noted that the assessment of the banks' stability performed by the National Bank of Ukraine in 2023 confirmed that the majority of banks in Ukraine have adequate capital, and the banking system in general has a high margin of safety. As at 1 January 2024, according to annual indicators, only 7 out of 63 solvent banks were unprofitable, with a total loss of UAH 245 million.

Management bodies and corporate governance

During 2023, 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 2023, 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 2023 were as follows:

Members of the Supervisory Board

Mikhov, Valentyn Liubomirov	Chairperson of the Supervisory Board – Independent Director;
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;
Meigas, Helo	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. Decision of the Management Board dated 7 February 2023 cancelled the anti-crisis management in the Bank and adopted the transfer to full-time operation.

Members of the Management Board as at the end of 2023 were as follows:

Members of the Management Board

Chernenko, Serhii Pavlovych	Chairperson of the Management Board;
Shkoliarenko, Kostiantyn Oleksandrovych	Deputy Chairperson of the Management Board – Chief Financial Officer (CFO);
Mahdych, Serhii Borysovych	Deputy Chairperson of the Management Board;
Polishchuk, Dmytro Ihorovych	Deputy Chairperson of the Management Board;
Kosenko, Nataliia Feliksivna	Deputy Chairperson of the Management Board;
Zahorodnykov, Artur Hermanovych	Deputy Chairperson of the Management Board;
Yeremenko, Fedot Yevheniiovych	Deputy Chairperson of the Management Board – Chief Risk Officer (CRO);
Kostiuchenko, Tetiana Vasylivna	Deputy Chairperson of the Management Board;
Skalozub, Leonid Pavlovych	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, as amended on 20 September 2023. The Code is publicly available at https://about.pumb.ua/management.

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

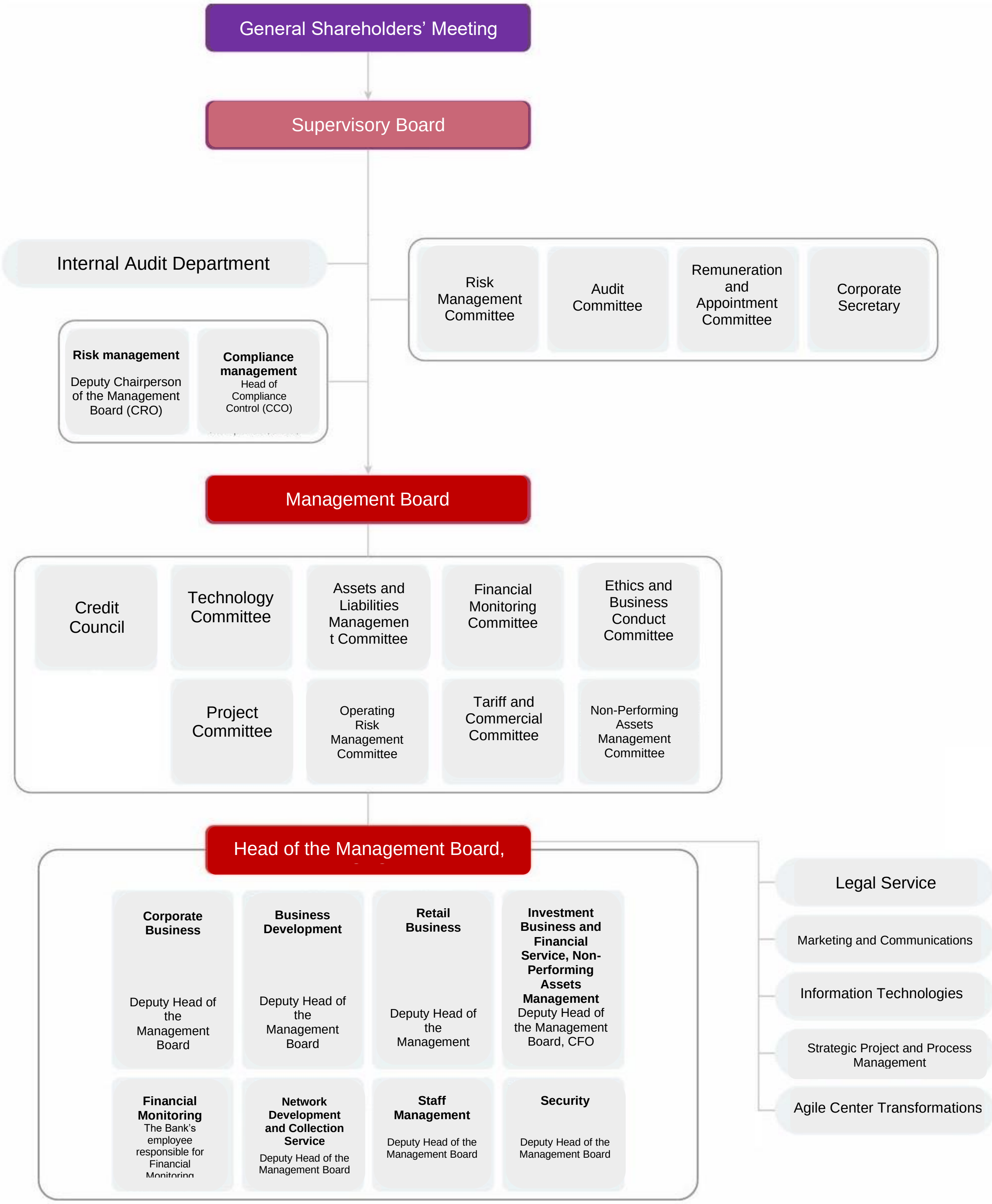
- Honesty, integrity, and respect in relations with owners (shareholders) and investors, as well as constant readiness to ensure adequate protection of their interests and maximize their wealth;
- Avoidance of unreasonably complex and excessively costly procedures to exercise the rights of the Bank's 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 providing 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 2023 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.

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.

Considering 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. Amounts due from Top-20 largest borrowers constitute 13% of the total loan portfolio, before allowance for expected credit losses (31 December 2022: 16%). 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 2023, 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 13.3%.

For the purpose of mitigating the sensitivity to credit risk, a significant amount of funds was directed to create allowances for active operations, especially in 2022. The allowances created covered the loan portfolio by 12.5% (31 December 2022: 26.1%). Such a significant increase in the provisioning rate is related to the maturing of credit losses and the large-scale write-offs against the allowance for irrecoverable amounts due, which was directly related to the full-scale military invasion of Russia.

Despite the war, the amount of customer accounts increased by 40.1% in 2023: the increase in the customer accounts of individuals amounted to 24.9%, and the funds of corporate clients increased by 51.2%. As a result, the share of corporate accounts in liabilities to the Bank's customers increased from 57.8% to 62.4%, and retail accounts decreased from 42.2% to 37.6%. 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, primarily due to significant expenses for the provision charge, however, based on the 2023 performance, the Bank received UAH 3,955 million of net profit, and this is taking into account the significant income tax expenses at an increased rate according to the amended legislation.

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 as at 1 April 2023, there was no capital shortage in FUIB. As at 31 December 2023, the Bank's capital adequacy exceeded the statutory ratio prescribed by the NBU (FUIB's capital adequacy ratio of H2 = 19.49%, with statutory of at least 10%, and average by the Ukrainian banking system – 21.07%).

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

About 63% of highly liquid assets were represented by investments in DGLBs and saving (deposit) certificates issued by the National Bank of Ukraine (31 December 2022: 60%). The funds on the correspondent account with the NBU were maintained to the extent necessary for servicing customers' operations and fulfilling 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 2023, the Bank's liquidity ratios were above the required levels set by the National Bank of Ukraine:

- Liquidity Coverage Ratio (LCR) for all currencies – 395%, with the minimum required by the NBU – 100%;
- Liquidity Coverage Ratio (LCR) in foreign currencies – 232%, with the minimum required by the NBU – 100%;
- Net Stable Funding Ratio (NSFR) – 191%, 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 2024, the Bank plans to finance its activities, the adequacy of working capital and liquidity by:

- Increased attraction of funds from corporate customers;
- Increased attraction of funds from retail customers.

The Bank invests funds or acquires certain assets under the FUIB's 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 2023 amounted to UAH 471 million, and plan by the end of 2024 is UAH 742 million.

As at 31 December 2023, the Bank had capital expenditure commitments stipulated in the contracts for equipment purchases in the amount of UAH 24,894 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's 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, sales outlets, and remotely. 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 2023, 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 to 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 actively invested 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. Many employees from the outlets in temporarily occupied territories and from the zones of active hostilities are employed in other outlets of the Bank. During the war, many employees were retrained and work in other units of the Bank.

The Bank created the Fund of Support to help mobilized employees of 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 Telegram, in chatbot, and in the volunteer community. 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 years of the war. Payments are processed, as usual, in the 24/7 mode. 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, Irpin, and Kherson. 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 the martial law.

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 and 2023, FUIB accurately paid out funds to depositors of other bankrupt banks. As a result of a balanced policy, customers trust the Bank.

The Bank continues to grant loans to businesses. Since the beginning of the war, FUIB has been paying a special attention to agricultural producers. The Bank closely cooperates with customers to assist the Ukrainian agricultural enterprises in conducting field work on schedule. Also, FUIB is an active participant of the state business support program "Affordable Loans 5-7-9". 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. From the beginning of the full-scale 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 years of the war, we saved funds on the accounts of over 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.

The Bank is trusted by more than 120 thousand corporate customers and 1.536 million individual customers.

Assistance to Ukrainian defenders. FUIB supports Ukrainian defenders (both men and women). From the beginning of the full-scale invasion, FUIB has already directed more than UAH 168 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. Part of our armored vehicles protect the country and deliver humanitarian aid. 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. During 2023, the Bank directed over UAH 53 million as financial aids to the employees who suffered this or that way from the Russian aggression and over UAH 18 million to ensure the safety of its employees. 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. Under the "We Are of One Blood" initiative, the funds collected were used to purchase hemostatic tourniquets, occlusive stickers, hemostatic bandages, compression bandages, intraosseous NIO accesses, ULV-200b low-temperature freezers for blood plasma storage in Kherson, and deliveries of blood components to hot spots, and each such delivery are thousands of saved lives. Thanks to this project, many Ukrainians have become donors, and this has saved many lives.

FUIB held a traditional Donor Day as part of the social project "We Are of One Blood". Many liters of blood were donated for the wounded. And more our 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 funds for surgical equipment for the front-line operating rooms. Emergency medical care will be provided in 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, the training program was held 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.

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, many webinars have been held with a total of over 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 2023, 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 2023, 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 2023 year end, the Bank had safety margins on most economic NBU's 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 based on the baseline scenario of parallel shifts in the yield curve towards the increase in interest rates. In 2022, after the NBU increased the discount rate, the Bank developed a scenario of shock shifts for the baseline scenario based on the current level of interest rates established in the Bank and the level of risk-free rate of the NBU.

In 2023, the Bank developed new scenarios for calculating interest rate risk of the banking book by using the NII method (the impact of interest rate risk on net interest income). The historical method is used to calculate shock changes in interest rates. The period of rate changes in 2022-2023 was chosen as a stressed period. For the current calculation of interest rate risk, the Bank uses the actual changes in interest rates over the recent year. As at 31 December 2023, interest rate risk of the banking book calculated under the standard scenario of actual changes in interest rates over the recent year amounted to UAH 425 million. A similar calculation as at 31 December 2022 amounted to UAH 1,312 million. During 2023, interest rate risk reduced due to a decrease in the annual volatility of interest rates.

Had there been increase in yield to maturity by 1 pp, the revaluation reserve for securities in equity would be lower by UAH 316,270 thousand as at 31 December 2023 (31 December 2022: by UAH 91,324 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	**2023**	**2022**
Currency risk without diversification consideration		
USD	66,686	14,873
EUR	115,409	9,707
Other currencies	20,078	6,557
Total currency risk without diversification consideration	**202,173**	**31,137**
Effect of diversification	(176,162)	(24,227)
Currency risk with diversification consideration	**26,011**	**6,910**

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 2023 and 2022, the Bank complied with capital adequacy ratio and requirements to regulatory capital.

As at 31 December 2023, the Bank complied with regulatory requirements to capital. As at 31 December 2023 and 2022, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2023	**2022**
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	7,787,034	3,823,803
Total Tier 1 capital	**15,579,198**	**11,615,967**
Tier 2 capital		
Asset revaluation reserves	1,810,574	80,414
Total Tier 2 capital	**1,810,574**	**80,414**
Total capital	**17,389,772**	**11,696,381**
Capital adequacy ratio at the reporting date		
Risk weighted assets	66,571,724	60,530,717
Total capital	17,389,772	11,696,381
Capital adequacy ratio (%)	**26.12%**	**19.32%**

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 2023 and income and expenses for the year ended 31 December 2023 were as follows:

As at and for the year ended 31 December 2023	**Parent**	**Entities under common control**	**Management**	**Other related parties**
Assets				
Loans and advances to customers	–	518,749	179	–
(UAH – interest rate, % p.a.)	–	–	*(38.66)*	–
(USD, EUR – interest rate, % p.a.)	–	*(6.00)*	–	–
Allowance for loan impairment	–	(298,266)	(15)	–
Other financial and non-financial assets	6	13,421	95	–
Liabilities				
Customer accounts	(168)	(16,712,558)	(89,535)	(256,303)
(UAH – interest rate, % p.a.)	–	*(10.39)*	*(13.59)*	*(12.26)*
(USD, EUR – interest rate, % p.a.)	–	*(0.39)*	*(0.75)*	*(1.18)*
Other financial and non-financial liabilities	(2)	(5,318)	(12)	(4)
Credit related liabilities				
Revocable commitments to extend loans	–	32,004	1,062	714
Guarantees and avals	–	1,026,870	–	–
Income/(expense)				
Interest income	–	26,282	25	2
Interest expense	–	(1,088,291)	(3,860)	(9,215)
Commission income	76	149,581	2,704	5,103
Other income	–	432	15	4
Charges to provision for commitments, guarantees, and letters of credit	–	1,456	–	–
Allowance for loan impairment	–	(109,640)	(6)	1
Operating expense and other income/(expense)	–	(138,768)	(784)	(6)

As at 31 December 2023, interest rate on loans to management was the interest rate on credit cards and overdrafts in the amount ranging from 35.88% to 41.88% after a grace period (as at 31 December 2022: on credit cards and overdrafts in the amount of 35.88% after a grace period and, on consumer loans, the nominal rate of 0.01% (effective rate: 49.27%)).

In 2023, the remuneration to 10 members of the Management Board comprised salaries of UAH 123,445 thousand (2022: UAH 104,452 thousand), mandatory contributions to the state funds in the amount of UAH 2,653 thousand (2022: UAH 2,594 thousand), and allowance for additional remuneration payment of UAH 93,869 thousand (2022: UAH 27,803 thousand). For the 12 months of 2023, the payments to eight members of the Supervisory Board amounted to UAH 25,465 thousand (2022: UAH 20,560 thousand) and mandatory contributions to the state funds amounted to UAH 1,393 thousand (2022: UAH 1,297 thousand). For the 12 months of 2023, the remuneration to the people of weight in the Bank amounted to UAH 3,727 thousand (2022: UAH 2,876 thousand), mandatory contributions to the state funds of UAH 531 thousand (2022: UAH 491 thousand), and allowance for additional remuneration payment of UAH 1,022 thousand (2022: UAH 307 thousand).

Performance results and further growth prospects

Results of the Bank’s business activities

As at 31 December 2023, the Bank’s total assets amounted to UAH 153,335 million, which was by UAH 41,361 million (+36.9%) higher than in the previous year (31 December 2022: UAH 111,974 million).

Corporate loan portfolio, before allowances for loan transactions, increased by UAH 5,562 million (+13.6%) to UAH 46,478 million. The allowances for impairment of corporate loans decreased by UAH 2,794 million (-39.7%) to UAH 4,243 million.

Retail loan portfolio, before allowances for loan transactions, decreased by UAH 5,301 million (-29.0%) and amounted to UAH 12,997 million. The allowances for impairment of retail loans decreased by UAH 5,233 million (-62.2%) to UAH 3,174 million. The decrease in allowances was due to the maturing of credit losses and large-scale write-offs against the allowance for irrecoverable amounts due, which was directly related to the full-scale military invasion of Russia.

The Bank's assets as at 31 December 2023 had the following structure:

1. Loans to customers – 34.0% (31 December 2022: 39.1%);
2. Cash on hand, balances with the NBU, and due from other banks – 24.8% (31 December 2022: 44.6%);
3. Securities portfolio – 37.9% (31 December 2022: 11.2%);
4. Property, plant, and equipment, investment property, intangible assets, other than goodwill, and right-of-use assets – 1.5% (31 December 2022: 2.3%);
5. Other assets – 1.9% (31 December 2022: 2.7%).

In 2023, the Bank's total equity increased by UAH 5,693 million (+48.7%) and, as at 31 December 2023, amounted to UAH 17,390 million.

As at 31 December 2023 and 2022, 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 2023, all shares were fully paid and registered.

The Bank's operating income, before allowances, for the year ended 31 December 2023 amounted to UAH 15,721 million, which was by UAH 589 million (+3.9%) higher than in 2022. This confirms a high efficiency of the management model and business taken as a whole.

For the year ended 31 December 2023, the Bank earned UAH 12,365 million of net interest income, which was by UAH 2,211 million (+21.8%) higher than in 2022.

In 2023, the Bank's net commission income amounted to UAH 2,144 million, which was by UAH 123 million (+6.1%) higher than in 2022.

Trade and other income of the Bank, based on the performance for the year ended 31 December 2023, amounted to UAH 1,211 million, which was by UAH 1,745 million lower than in the previous year. Such a decrease is explained by the conversion of 41,048 Visa Class C ordinary shares into 164,192 Visa Class A ordinary shares and their sale in the open market in December 2022. This was a one-off transaction. 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 in 2022 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 2023, the Bank's operating expense increased by UAH 1,766 million (+33.4%) and amounted to UAH 7,044 million.

To mitigate sensitivity to credit risk, a significant amount of funds was directed to create provisions for active operations. In 2023, expenses on creating allowances for impairment of loans and for obligations related to lending operations amounted to UAH 439 million, which was by UAH 9,900 million less than in the previous year. The created allowances covered 12.5% of the customer loan portfolio (26.1% as at 31 December 2022). Such a significant decrease in provisioning costs is directly related to maturing of credit losses and large-scale write-offs against the allowance for irrecoverable amounts due, which was directly related to the full-scale military invasion of Russia.

Based on the performance for the year ended 31 December 2023, the Bank received net profits in the amount of UAH 3,955 million, considering significant expenses in income taxes paid at the increased rate due to the amended legislation in the amount of UAH 4,282 million. JSC "FUIB" became one of the Top-5 taxpayers in the banking sector of Ukraine.

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 loan transactions, increased by UAH 261 million (+0.4%) to UAH 59,475 million as at 31 December 2023. The allowances for expected credit losses decreased by UAH 8,027 million (-52.0%) to UAH 7,416 million mainly due to significant write-offs of irrecoverable amounts due.

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 2023, the corporate loan portfolio amounted to UAH 46,478 million, which was by UAH 5,562 million (+13.6%) higher than in the previous year. Loans to trading companies (35.4%), food processing industry and agriculture (33.9%) represented the major share in the Bank's corporate loan portfolio by industry sectors, with the trading companies portfolio demonstrating the biggest growth of UAH 3,242 million and the engineering entities portfolio showing the biggest decline by UAH 1,968 million.

As at the 2023 year-end, the loans to individuals amounted to UAH 12,997 million, which was by UAH 5,301 million (-29.0%) lower than as at 31 December 2022.

The Bank's interest income on lending operations amounted to UAH 11,010 million in 2023, which was by UAH 96 million (-0.9%) lower than in 2022. Relative share of income on loans to customers in the interest income structure was 54.3% (2022: 74.6%).

Transactions with securities. As at 31 December 2023, the Bank's securities portfolio amounted to UAH 68,168 million, which was by UAH 30,550 million (+81.2%) higher than as at 31 December 2022.

As at 31 December 2023, total amount of Domestic Government Loan Bonds in the Bank's investment portfolio amounted to UAH 30,446 million, which was by UAH 17,866 million (+142.0%) higher than as at 31 December 2022.

In 2023, the interest income on transactions with securities amounted to UAH 8,611 million and increased by UAH 4,990 million (+137.9%) compared to 2022. According to the 2023 performance, the share of interest income on securities transactions in total interest income was 42.5% (2022: 24.3%).

The Investment Business Department carried out transactions with securities in accordance with the limits set.

Interbank operations. As at 31 December 2023, due from other banks amounted to UAH 15,064 million, which was by UAH 3,749 million (-19.9%) lower than as at 31 December 2022.

In 2023, interest income on interbank operations amounted to UAH 643 million (3.2% of the total interest income) and increased by UAH 474 million (+280.1%) compared to 2022.

The Bank's transactions with liabilities

The Bank's total liabilities increased by UAH 35,667 million or by +35.6% to UAH 135,945 million as at 31 December 2023.

Customer accounts. In 2023, customer accounts increased by UAH 36,243 million (+40.1%), the relative share in total liabilities structure increased from 90.0% to 93.1% in comparison with 2022. Corporate customer accounts increased by UAH 26,732 million (+51.2%) to UAH 78,901 million, and retail customer accounts increased by UAH 9,511 million (+24.9%) and amounted to UAH 47,642 million. As a result, the relative share of corporate customer accounts in total liabilities increased from 57.8% to 62.4%, retail customer accounts – decreased from 42.2% to 37.6%.

Borrowings. As at the 2023 year-end, due to other banks increased by UAH 393 million (+16.9%) and amounted to UAH 2,717 million. In 2020, the Bank received from the National Bank of Ukraine three tranches of a refinancing loan in the total amount of UAH 4,200,000 thousand. In September 2021, the Bank received an additional tranche 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 of UAH 4,200,500 thousand.

The Bank's achievements in 2023

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.

- Thus, FUIB took the honorable 1st place among banks in the rating of "TOP-50 Best Employers of the Wartime" according to Forbes.
- The rating of "25 Leading Banks of Ukraine" emphasized the distinction of FUIB in the banking market:
  - Serhii Chernenko, the Chairperson of the Bank's Management Board, topped the list in the "Best Bank Top Manager" category;

- Serhii Mahdych, the Deputy Chairperson of the Bank's Management Board for Corporate Business, took the first place in the "Best Corporate Banker" nomination;
- Nataliia Kosenko, the Deputy Chairperson of the Bank's Management Board for Corporate Business, became the first in the "Best Operating Director" nomination;
- FUIB became the winner of two thematic ratings, by receiving the first place in the categories of the "Services to Individuals in Outlets" and the "Salary Projects".

- The annual research of the banking market conducted by the "Financial Club" publication announced the results of the "Banks of the Year – 2023" rating, according to which FUIB became the best in the following categories:
  - The 1st place: the "Best Corporate Bank" (absolute growth of loan portfolio of legal entities);
  - The 1st place: the "Best Settlement Bank for Business" (absolute growth of business UAH-denominated current accounts);
  - The 1st place: the "Best Savings Bank for the Population" (absolute growth of UAH-denominated deposits of the population).
- FUIB was honored in four nominations of the annual FinAwards 2023:
  - Gold: the "Best Payment Card" for the debit card of vseKARTA;
  - Gold: the "Best Credit Card" for the credit card of vseMOZHU;
  - Silver: the "Best Bank for SMB Customers";
  - Silver: the "Best Cash Loan";
  - Silver: Kseniia Sikorska, Marketing Director in the "Best Marketing Leader" category.
- According to the rating of Prostobank Awards 2023, FUIB took the first place in the "Best Salary Project" nomination.
- The independent rating agency "Credit-Rating" confirmed the long-term credit rating of First Ukrainian International Bank (FUIB) at uaAAA level. Also, the agency confirmed the reliability rating of FUIB's deposits at the level of "5" (the highest reliability).
- FUIB was awarded the 2nd place among financial institutions with private Ukrainian capital in the rating of stability of Ukrainian banks "TOP-15 Most Stable Banks of the Country" by media NV and the investment company Dragon Capital.
- FUIB is the winner of the Ukrainian Fintech Awards 2023 in the "Best Finance ESG Initiative" and "Fintech Marketing Campaign of the Year" nominations. The Bank is recognized as a company that develops in the direction of ESG and has significant achievements in the development of socially responsible business conduct and charity, has the best socially significant marketing campaign of 2022 in the fintech sector.
- FUIB is the winner in the "Social Marketing" nomination at the X-RAY competition. JSC "FUIB" was recognized as the winner in the "Social Marketing" nomination for the social project "We Are of One Blood" at the X-RAY marketing project contest.

In April 2013, the Bank joined the UN Global Compact, thereby declaring its commitment to the principles of the UN Global Compact in the field of human rights, labor relations, environmental protection, and the fight against corruption. The Bank supports 17 principles of sustainable development and implements them in its activities by integrating those principles into three main components: environmental, social, and governance (ESG) components, where:

- Environmental component: potential or actual changes to the physical or natural environment (including environmental pollution, impact on biodiversity, carbon emissions, use of natural resources, climate change);
- Social component: potential or actual effects affecting the population of the territories and, in particular, the workforce (including occupational health and safety, supply chains, diversity and inclusion);
- Governance component: the structure and processes of corporate governance through which companies are managed and controlled (including the structure and diversity of the composition of the supervisory board, ethical behavior, risk management, information disclosure, and transparency).

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.

Section II. Report on Corporate Governance of JSC “FUIB”

The Bank – JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”, JSC “FUIB”.

The Bank’s Board – The Supervisory Board.

The GSM – The General Shareholders’ Meeting.

Reporting period – 2023.

1) Reference to the Corporate Governance Code of an operator of the organized capital market, association of legal entities, and/or the Corporate Governance Code approved by the National Commission for Securities and Stock Market, and another Corporate Governance Code (if any) that the issuer has voluntarily decided to apply, including reference to the text of the relevant Code in public domain.

To regulate the principles of corporate governance in the Bank in accordance with the requirements of the legislation of Ukraine and the provisions of the Bank’s Charter, the Code of Corporate Governance of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” was approved by Decision of the GSM dated 27 November 2018. By Decision of the GSM dated 20 September 2023, the new version of the Principles (Code) of Corporate Governance of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” was approved.

Principles (Code) of Corporate Governance of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” are placed on the Bank’s official website at: https://about.pumb.ua/management.

In the process of its activities, the Bank adheres to and implements in daily practice the defined basic corporate governance principles, such as:

- Full observance of the rights and interests of the Bank-s shareholders;
- Segregation of authorities and responsibilities in business management;
- Appropriate accountability level;
- Proper level of restraint and balance system;
- Balance and effectiveness of the internal control and risk management system;
- High standards of corporate culture and business ethics;
- Compliance with corporate social responsibility;
- Information transparency.

During 2023, the Bank strictly adhered to the Corporate Governance Principles (Code).

2) Explanations regarding reasons of deviations and/or failure to apply the Corporate Governance Code’s provisions.

During 2023, there were no deviations from the provisions of the Principles (Code) of Corporate Governance.

3) Information about the General Shareholders’ (Participants’) Meetings held and general description of the decisions taken at the meetings.

On 28 April 2023, upon the initiative of the Bank’s Board, **the annual General Shareholders’ Meeting was held** which considered the following issues:

1. On approving the Bank’s annual report for 2022.
2. On considering conclusions under the external (independent) audit regarding the Bank’s annual report for 2022 and approving measures based on the results of their consideration.
3. On approving the procedure for covering the Bank’s losses based on the performance for 2022.
4. On amending the Charter of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” and approving its new version.
5. On approving the Regulation on the General Shareholders’ Meeting of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” in a new version.
6. On approving the Regulation on the Supervisory Board of JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” in a new version.

7. On considering the Report of the Bank's Supervisory Board for 2022 and taking decisions based on consideration of its Report for 2022.
8. On appointing Deputy Chairperson of the Supervisory Board.
9. On approving the Report on Remuneration to Members of the Bank's Supervisory Board for 2022.
10. On expediency of amending the Regulation on Remuneration of Members of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".

The annual GSM was held remotely due to the imposition of the martial law in Ukraine in accordance with Decree of the President of Ukraine No. 64/2022 dated 24 February 2022, the Law of Ukraine "On Approving the Decree of the President of Ukraine "On Extending the Martial Law Period in Ukraine" and on the basis of the Procedure for Convening and Holding Remote General Shareholders' Meetings as approved by Decision of the National Commission for Securities and Stock Market No. 236 dated 3 June 2023. No proposals to the list of agenda items were provided. The quorum at the annual GSM was 92.34% of the total number of voting shares. Relevant decisions were taken on all the items of the agenda, namely: the Bank's annual report for 2022 was approved, including the Bank's financial statements for 2022 prepared in accordance with International Financial Reporting Standards (IFRS), conclusions of the Bank's external (independent) auditor, LLC "Deloitte & Touche Ukrainian Services Company", were considered regarding the Bank's annual report for 2022, including in respect of audit of the Bank's financial statements for the year ended 31 December 2022, containing the auditor's opinion; the procedure for covering losses based on the Bank's performance for 2022 was approved through directing retained earnings to repay the losses incurred in 2022. By decision of the annual GSM, the new versions of the Bank's Charter, Regulation on the General Shareholders' Meeting, Regulation on the Supervisory Board were approved. The Report of the Bank's Board was approved, and its activities were recognized to be highly effective, as well as the Report on Remunerating Members of the Bank's Board for 2022. Also, a Deputy of the Board was appointed, and it was determined that it was inappropriate to amend the Regulation on Remuneration of Members of the Bank's Board approved by Decision of the Extraordinary GSM of the Bank dated 25 November 2021 (Minutes No. 87) due to its compliance with the legislation requirements.

Minutes with voting results are freely available on the Bank's official website at: https://about.pumb.ua/management/investors

The results of the annual GSM are formalized by Minutes No. 89 dated 28 April 2023.

On 20 September 2023, the extraordinary General Shareholders' Meeting was held through face-to-face voting, taking into account Decision of the National Commission for Securities and Stock Market No. 154 dated 16 February 2023 "On Determining the Peculiarities of Holding General Meetings of Joint Stock Companies and General Meetings of Participants of Corporate Investment Funds for the Martial Law Period in 2023" and the requirements of Article 59 of the Law of Ukraine "On Joint Stock Companies" (if shareholders who own 100 percent of voting shares have gathered in one place, they have the right to take any decision on the issues that fall under the competence of the general shareholders' meeting of the company in accordance with the law and/or the charter of the joint stock company).

The said GSM considered the following issues:

1. On electing members of the Counting Commission, taking a decision on termination of their powers. On the procedure for signing minutes of the extraordinary General Meeting.
2. On early termination of the authorities of the Chairperson and members of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".
3. On electing members of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".
4. Про electing the Chairperson of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".
5. On approving the terms and conditions of civil law agreements to be concluded with the Chairperson and members of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK", determining the amount of their remuneration and electing a person authorized to sign civil law agreements with the Chairperson and members of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".
6. On amending the Charter of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and approving it in a new version.
7. On approving the Regulation on the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" in a new version.
8. On approving the Principles (Code) of Corporate Governance of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" in a new version.

Two shareholders (representatives by proxy), holders of 14,323,880 (fourteen million three hundred and twenty-three thousand eight hundred and eighty) voting shares of the Bank, which is 100% of the issued capital of the Bank, gathered to participate in the extraordinary GSM.

The GSM quorum was 100% of the total number of voting shares. Relevant decisions were taken on all agenda items, namely: members of the Counting Commission were elected and their powers were terminated after drawing up and signing the minutes on voting results on all agenda items of the GSM, as well as a decision was taken to notarize the signatures of the Chairperson and Secretary of the GSM on the minutes. Also, the authorities of members of the Board were early terminated, its new composition and the Chairperson of the Bank's Board were elected, the terms and conditions of civil law agreements were approved, and the amount of their remuneration was established. The decision of the GSM approved the Bank's Charter, the Regulation on the Bank's Supervisory Board, and the Principles (Code) of Corporate Governance in new versions.

Minutes with voting results are freely available on the Bank's official website at: https://about.pumb.ua/management/investors

The results of the extraordinary GSM are formalized by Minutes No. 90 dated 20 September 2023.

On 6 November 2023, the extraordinary General Shareholders' Meeting was held through face-to-face voting, taking into account Decision of the National Commission for Securities and Stock Market No. 154 dated 16 February 2023 "On Determining the Peculiarities of Holding General Meetings of Joint Stock Companies and General Meetings of Participants of Corporate Investment Funds for the Martial Law Period in 2023" and the requirements of Article 59 of the Law of Ukraine "On Joint Stock Companies".

The said GSM considered the following issues:

1. On electing members of the Counting Commission, taking a decision on termination of their powers.
2. On determining the amount of remuneration to a member of the Supervisory Board and electing a person authorized to sign a supplementary agreement to the civil law agreement entered into with the member of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".

Two shareholders (representatives by proxy), holders of 14,323,880 (fourteen million three hundred and twenty-three thousand eight hundred and eighty) voting shares of the Bank, which is 100% of the issued capital of the Bank, gathered to participate in the extraordinary GSM.

The GSM quorum was 100% of the total number of voting shares. Relevant decisions were taken on all agenda items, namely: members of the Counting Commission were elected and their powers were terminated after drawing up and signing the minutes on voting results on all agenda items of the GSM, as well as the remuneration amount determined for member of the Bank's Board.

Minutes with voting results are freely available on the Bank's official website at: https://about.pumb.ua/management/investors

The results of the extraordinary GSM are formalized by Minutes No. 91 dated 6 November 2023.

On 27 December 2023, the extraordinary General Shareholders' Meeting was held through face-to-face voting, taking into account Decision of the National Commission for Securities and Stock Market No. 154 dated 16 February 2023 "On Determining the Peculiarities of Holding General Meetings of Joint Stock Companies and General Meetings of Participants of Corporate Investment Funds for the Martial Law Period in 2023" and the requirements of Article 59 of the Law of Ukraine "On Joint Stock Companies".

The said GSM considered the following issues:

1. On electing members of the Counting Commission, taking a decision on termination of their powers.
2. On determining the amount of remuneration to a member of the Supervisory Board and electing a person authorized to sign a supplementary agreement to the civil law agreement entered into with the member of the Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK".

Two shareholders (representatives by proxy), holders of 14,323,880 (fourteen million three hundred and twenty-three thousand eight hundred and eighty) voting shares of the Bank, which is 100% of the issued capital of the Bank, gathered to participate in the extraordinary GSM.

The GSM quorum was 100% of the total number of voting shares. Relevant decisions were taken on all agenda items, namely: members of the Counting Commission were elected and their powers were terminated after drawing up and signing the minutes on voting results on all agenda items of the GSM, as well as the remuneration amount determined for member of the Bank's Board.

Minutes with voting results are freely available on the Bank's official website at: https://about.pumb.ua/management/investors

The results of the extraordinary GSM are formalized by Minutes No. 92 dated 27 December 2023.

4) Composition of the Bank's Supervisory Board and Management Board, their committees, information about the meetings held, and general description of the decisions taken, as well as Reports of the Bank's Supervisory Board and Management Board.

Composition and activities of the Supervisory Board in 2023.

The Bank's Board is a collegial body of the Bank that manages the Bank, controls and regulates the activities of the Bank's Management Board, and also protects the rights of depositors, other creditors, and shareholders of the Bank within the scope of competence defined by the legislation, the Bank's Charter, and the Regulations on the Supervisory Board of JSC "FUIB".

Members of the Bank's Board are elected from among the Bank's shareholders, their representatives, and independent members.

In the period from 1 January 2023 to 30 September 2023, the Bank's Board worked in the composition elected by the extraordinary GSM dated 25 November 2021 (Minutes No. 87) in the number of 8 members, of which 3 were independent directors, in particular:

1. Popov, Oleh Mykolaiovych – Chairperson of the Board, representative of the shareholder, LLC "SCM FINANCE";
2. Povazhna, Marharyta Viktorivna – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
3. Katanov, Georgi Bogomilov – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
4. Duhadko, Hanna Oleksandrivna – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
5. Kurilko, Serhii Yevhenovych – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
6. Stalker, Catherine Elizabeth Ann – member of the Board, independent director;
7. Grasmanis, Ansis – member of the Board, independent director;
8. Mikhov, Valentyn Liubomirov – member of the Board, independent director.

The annual GSM dated 28 April 2023 (Minutes No. 89) appointed Mikhov, V. L. as the Deputy Chairperson of the Board.

The extraordinary GSM dated 20 September 2023 (Minutes No. 90) early terminated the authorities of the Bank's Board in full composition due to the increase in the Board's composition number, and the Board was elected for the term of three years in the number of 9 members who took office effective from 1 October 2023, of which 4 were independent directors. Independent director Mikhov, V. L. was appointed as the Board's Chairperson.

In the period from 1 October 2023, the Bank's Board shall function in the following composition:

1. Mikhov, Valentyn Liubomirov – Chairperson of the Board, independent director;
2. Popov, Oleh Mykolaiovych – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
3. Povazhna, Marharyta Viktorivna – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
4. Katanov, Georgi Bogomilov – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
5. Duhadko, Hanna Oleksandrivna – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
6. Kurilko, Serhii Yevhenovych – member of the Board, representative of the shareholder, LLC "SCM FINANCE";
7. Stalker, Catherine Elizabeth Ann – member of the Board, independent director;
8. Grasmanis, Ansis – member of the Board, independent director;
9. Meigas, Helo – member of the Board, independent director.

On 3 November 2023, the authorities of the member of the Board Popov, O. M. were early terminated of his own accord based on his application.

The existing composition of the Board and the number of independent directors meet the requirements of the legislation, and are also optimal and sufficient for the Bank’s Board to exercise its authorities. In addition, the Chairperson of the Bank’s Board is an independent director, which meets the best practice of corporate governance.

All members of the 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 operations.

Independent directors meet the requirements for their independence established by law.

The collective suitability of the Bank’s 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 activities of the Banking Group to which the Bank belongs.

Members of the Bank’s Board have experience in the area of strategic planning, business development, corporate governance, risk management and building an effective internal control system, non-performing assets management, accounting, and also have knowledge specific to the Bank’s field of activities, which allows them to discuss professionally the issues on which the decisions are taken.

The Bank’s Board is balanced in terms of its members’ experience and key skills necessary for their effective work.

Distribution of authorities among the Board’s members was approved by Decision of the Bank’s Board dated 2 October 2023 (Minutes No. 411).

The organizational form of work of the Board, as a collegial body, is a meeting.

During 2023, the Bank’s Board held 24 meetings, of which 5 – regular meetings, and 19 — extraordinary meetings. Regular meetings of the Bank’s Board were held in accordance with the approved Work Plan for 2023.

The Chairperson and Deputy Chairpersons of the Bank’s Management Board, Director of the Internal Audit Department, Head of the Compliance Control Department, the Bank’s employee responsible for financial monitoring, as well as the authorized employee of the National Bank of Ukraine (the “NBU”) were additionally invited to face-to-face meetings.

During the reporting year, the Board of the Bank participated in all important and fundamental decisions, adopted them within its competence in accordance with the Bank’s Charter.

In the conditions of the martial law during 2023, decisions of the Board were focused on business planning of the Bank’s activities, controlling the implementation of the business plan aimed at ensuring the uninterrupted operation of the Bank, maintaining liquidity and operational stability. At quarterly meetings, the Bank’s financial reports, as well as reports on the current situation in the Bank related to imposition of the martial law in Ukraine, in particular, on the state of loan portfolios, created reserves, and losses incurred as a result of the destruction and damage of the Bank’s properties were considered on a regular basis. Also, during the reporting year, the Board monitored capital adequacy, analyzed the impact of risks on capital, monitored the effectiveness of the risk management system and internal controls. Reports on risk management in the Bank and the Banking Group, reports on compliance control and assessments of the Bank’s risk profile in the area of AML/CFT were considered on a quarterly basis. Target indicators of risk appetite for 2023 were approved in accordance with the Risk Appetite Statement of JSC “FUIB”. Indicators of the Bank’s risk appetite, in particular, credit, operating, and market risks, liquidity risks were monitored consistently. In connection with the increased level of cyber threats, special attention was paid to IT risks and risks of information systems. Reports on cyber risk management measures implemented by the Bank were considered at quarterly meetings. To ensure the operation and control of the effectiveness of the Bank’s comprehensive and adequate internal controls, in particular, internal audit, members of the Board considered quarterly results of the internal audit and key results of the audits performed, quarterly assessments of the ICS, and reports on monitoring key control indicators. The Board continuously monitored the implementation of measures based on the results of the NBU’s reviews in terms of compliance with the requirements of the Ukrainian legislation in the area of financial monitoring and currency legislation, as well as the requirements of the NBU’s Resolution No. 18 dated 24 February 2022 “On the Work of the Banking System in the Period of the Martial Law”.

In addition, the Bank’s Board took decisions on the following issues of the Bank’s activities:

- The Bank’s budget for 2024, namely, budgets of control units were approved;
- The Bank’s Strategy for 2024–2026 and the Strategic Plan of the Internal Audit Department (the “IAD”) for 2024–2027 were approved.
- The results of the external audit of the financial statements for 2022 were considered and recommendations to the GSM based on the results of consideration of the opinion and the Report of the external auditor were approved;

- Major terms and conditions of the agreement with the independent external auditor regarding services to the Bank regarding statutory audit of the financial statements for the period ended 31 December 2023, were approved, and the amount of fees for their services was established;
- Changes to the Management Board's composition were introduced;
- Decisions for convening and holding the annual and extraordinary GSMs were taken;
- Reports of the Management Board and the Corporate Secretary for 2022 were approved and the Board's Reports agreed before bringing them for consideration the GSM;
- New versions of the Bank's internal statutory documents on corporate governance, risk management, and compliance control were approved, including on the regulation of activities of JSC "FUIB"'s Banking Group;
- Decisions were taken on other important issues of the Bank's activities under the competence of the Board in accordance with the Charter, the Regulation on the Supervisory Board of JSC "FUIB", and the legislation of Ukraine.

The Board focused on the issues of staff development and the Bank's personnel policy (benefits of the Bank's employees, setting the amount of additional remuneration, monitoring staff turnover and the degree of satisfaction of the Bank's employees).

Relevant decisions were taken on all agenda items, which are stated in minutes of the Bank's Board meetings.
The Report on the Bank's Board's Activities for 2023 prepared in accordance with the legislation requirements is placed at the Bank's corporate website at: https://about.pumb.ua/management/supervisory-board.

According to the requirements of the Law of Ukraine "On Banks and Banking" for the purpose of preliminary study and preparation for consideration of the issues that belong to the competence of the Supervisory Board, effective from 1 January 2019, the following mandatory committees function within it:

- Risk Management Committee;
- Audit Committee;
- Remuneration and Appointments Committee.

The committees are headed by independent directors.

Composition and activities of the Risk Management Committee (the "RMC") in 2023:

In the period from 1 January 2023 to 30 September 2023, the RMC functioned in the composition appointed by Decision of the Board dated 21 July 2022 (Minutes No. 387) in the number of 3 members, namely:

1. Mikhov, Valentyn Liubomirov, Chairperson of the Committee;
2. Duhadko, Hanna Oleksandrivna, member of the Committee;
3. Grasmanis, Ansis, member of the Committee.

In the period from 2 October 2023 to 31 December 2023, the RMC operated in the composition appointed by Decision of the Board dated 2 October 2023 (Minutes No. 411) in the number of 4 members, namely:

1. Meigas, Helo, Chairperson of the Committee;
2. Mikhov, Valentyn Liubomirov, member of the Committee;
3. Grasmanis, Ansis, member of the Committee;
4. Duhadko, Hanna Oleksandrivna, member of the Committee.

Functions and authorities of the RMC are determined by the Regulation on the Risk Management Committee of the Supervisory Board of JSC "FUIB", as approved by Decision of the Bank's Board dated 14 December 2023 (Minutes No. 416). The effective version of the Regulation is placed on the Bank's corporate website at: https://about.pumb.ua/management/supervisory-board.

During 2023, the RMC held 13 meetings, of which 5 were regular and 8 – extraordinary.

At the RMC's meetings, in 2023, the following reports were considered:

- On the current situation in the Bank related to introduction of the martial law in Ukraine and ensuring the Bank's uninterrupted operations;

- On the Bank's risk appetite and risk profile indicators, in particular, in the area of AML/CFT, as well as other risk management reports regarding loan portfolios of Corporate and Retail Businesses;
- On capital adequacy considering the risks of the war based on risk stress testing results;
- On fulfillment of the Operational Plan and the Non-Performing Assets Management Strategy;
- On related party transactions;
- On assessment of the compliance risk degree;
- On assessment of the effectiveness of risk management and compliance control units for 2022;
- On Third Party Risk Management Systems (TPRMS): Outsourcing.

The RMC also agreed the following:

- Target indicators of risk appetite for 2023 in accordance with the Risk Appetite Statement of JSC "FUIB";
- Changes to credit policies of Corporate and Retail Businesses;
- Results of the annual self-assessment of banking risks for 2024;
- Internal regulatory documents on risk management and compliance control.

On all the issues considered, the RMC provided proposals to the Board formalized by relevant decisions in minutes of the meetings.

Composition and activities of the Audit Committee (the "AC") in 2023:

In the period from 1 January 2023 to 30 September 2023, the AC functioned in the composition appointed by Decision of the Board dated 13 December 2021 (Minutes No. 378) in the number of 3 members, namely:

1. Grasmanis, Ansis, Chairperson of the Committee;
2. Povazhna, Marharyta Viktorivna, member of the Committee;
3. Mikhov, Valentyn Liubomirov, member of the Committee.

In the period from 2 October 2023 to 31 December 2023, the AC operated in the composition appointed by Decision of the Board dated 2 October 2023 (Minutes No. 411) in the number of 3 members, namely:

1. Grasmanis, Ansis, Chairperson of the Committee;
2. Meigas, Helo, member of the Committee;
3. Povazhna, Marharyta Viktorivna, member of the Committee.

Functions and authorities of the Audit Committee are determined by the Regulation on the Collegial Body "The Audit Committee of the Supervisory Board of JSC "FUIB", as approved by Decision of the Bank's Board dated 20 April 2023 (Minutes No. 402). The effective version of the Regulation is placed on the Bank's corporate website at: https://about.pumb.ua/management/supervisory-board.

During 2023, the AC held 10 meetings, of which 5 were regular and 5 – extraordinary.

At the AC's meetings, in 2023, the following issues were, in particular, considered:

- Quarterly reports on the results of monitoring key control indicators;
- Generalized assessments of the effectiveness of the Bank's Internal Control System as at 1 January 2023;
- Results of the NBU's inspection reviews;
- Plan of measures to implement recommendations of the external auditor, LLC "Deloitte & Touche USC", based on the results of audit of the financial statements for 2022 developed by the Bank's management;
- Report on implementing the Concept of the Internal Audit Department Development, the Program for Ensuring and Improving the Quality of Internal Audit for 2020–2022 (based on the performance results for 2022), it was agreed to continue the Concept of the IAD Development and the Program for Ensuring and Improving the Quality of Internal Audit for 2023 (in connection with their incomplete implementation due to the armed aggression of the Russian Federation/Belarus against Ukraine);
- Results of the self-assessment of the IAD for 2022;

- Information on implementing internal audit recommendations by the Bank's units for 2022 (as at 1 January 2023), for the first half of 2023, and the 9 months of 2023;
- Report based on the results of an external independent assessment of the quality of internal audit performed by LLC "KPMG-Ukraine", as well as an action plan for implementing the recommendations obtained from the external expert, with the aim of further improving the internal audit, was considered and approved for further approval by the Board;
- Drafts of the Strategic Plan of the IAD for 2024–2027, the Activity Plan for 2024, and the IAD's Budget for 2024 and provided recommendations to the Board regarding their approval.

The AC also:

- Agreed major terms and conditions of the agreement with the external auditor, LLC "Deloitte & Touche USC", regarding the statutory audit of the Bank's financial statements for 2023, with a relevant recommendation provided to the Bank's Board;
- Monitored and reviewed the efficiency of the Bank's IAD, which presupposed assessing the performance of the IAD's Director;
- Prepared proposals for setting goals to the IAD's Director for 2023;
- Analyzed and discussed the IAD's reports based on the audits conducted by it and reports on the IAD's work for Quarter IV of 2022 and Quarters I, II, III and October-November 2023;
- Conducted an open tender to select an independent expert to perform an external assessment of the quality of the internal audit function based on the results of which a recommendation was taken to the Board regarding the selection of LLC "KPMG-Ukraine" as the winner of the tender;
- Agreed the updated Audit Policy of JSC "FUIB" and the Banking Group of JSC "FUIB";
- Provided recommendations to the Bank's Board regarding the approval of the adjusted Plan of the IAD's Activities for 2023, in connection with the reviewed priority of the items to be audited.

On all the issues considered, the AC provided proposals to the Board formalized by relevant decisions in minutes of the meetings.

Composition and activities of the Remuneration and Appointment Committee (the "RAC") in 2023:

In the period from 1 January 2023 to 3 November 2023, the RAC functioned in the composition appointed by Decision of the Board dated 13 December 2021 (Minutes No. 378) and Decision of the Board dated 2 October 2023 (Minutes No. 411) in the number of 3 members, namely:

1. Stalker, Catherine Elizabeth Ann, Chairperson of the Committee;
2. Popov, Oleh Mykolaiovych, member of the Committee;
3. Mikhov, Valentyn Liubomirov, member of the Committee.

Due to the termination on 3 November 2023 of authorities of the Board's member Popov, O. M., in the period from 21 November 2023 to 31 December 2023, the RAC operated in the new composition appointed by Decision of the Board dated 21 November 2023 (Minutes No. 415) in the number of 3 members, namely:

1. Stalker, Catherine Elizabeth Ann, Chairperson of the Committee;
2. Duhadko, Hanna Oleksandrivna, member of the Committee;
3. Mikhov, Valentyn Liubomirov, member of the Committee.

Functions and authorities of the Committee are determined by the Regulation on the Collegial Body "The Remuneration and Appointment Committee of the Supervisory Board of JSC "FUIB", as approved by Decision of the Bank's Board dated 19 April 2022 (Minutes No. 385). The effective version of the Regulation is placed on the Bank's corporate website at: https://about.pumb.ua/management/supervisory-board.

During 2023, the RAC held 7 meetings, of which 5 were regular and 2 – extraordinary.

Within the limits of the functions assigned by the Bank's Board, during the year, the RAC considered and provided recommendations to the Board on the matters of personnel policy shaping regarding the selection of highly qualified managers of the Bank, development of the principles and criteria for determining the amount of remuneration and benefits paid to managers and other persons performing control functions, development of the transparent system of their motivation, etc.

At the RAC's meetings, the following issues, in particular, were considered:

- Summarized activities of the Management Board members, the Bank's employee responsible for financial monitoring, and the CCO for 2022 and agreed goals for 2023;
- Agreed reports on remuneration to members of the Board, the Bank's Management Board, and significant persons within the Bank for 2022;
- Agreed a report on the effectiveness of activities of the Bank's Board and the Management Board for 2022 and measures based on the results of its review;
- Agreed a report of the Bank's Corporate Secretary for 2022;
- Agreed the results of the annual assessment performed on the compliance of members of the Supervisory Board, the Management Board, and other managers of the Bank with the qualification requirements established by the NBU for managers of the Bank;
- Provided recommendations as to changes in the composition of the Bank's Management Board and regarding the candidacy of the Bank's Corporate Secretary;
- Agreed the Bank's internal regulatory documents within its competences.

A considerable attention was paid to the Bank's personnel management within the martial law period, its support and social protection. Namely, the salaries of the Bank's employees were reviewed, additional remuneration was agreed to be paid, and the results of eNPS survey were discussed. The status and turnover of the Bank's employees was monitored on an ongoing basis.

On all the issues considered, the RAC provided proposals to the Board formalized by relevant decisions in minutes of the meetings.

Composition and activities of the Management Board of the Bank in 2023.

The Management Board is a collegial executive body that carries out the current management of the Bank.

The Management Board's competences include resolving all issues related to the management of the current activities of the Bank, except for the issues belonging to the exclusive competence of the General Meeting and the Supervisory Board.

Deputy Chairpersons of the Bank's Management Board are part of the Bank's Management Board ex officio.

The quantitative and personal 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: the Chairperson of the Management Board, the First Deputy Chairperson of the Management Board (if appointed by the Supervisory Board), the Deputy Chairpersons of the Management Board, members of the Management Board.

During 2023, the Management Board operated in the following composition:

Chernenko, Serhii Pavlovych – The Chairperson of the Management Board, 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 operations in all areas of its activities. He ensures the fulfillment of the Bank's Strategy. Arranges for implementing decisions of the General Shareholders' Meetings and the Supervisory Board.

Shkoliarenko, Kostiantyn Oleksandrovych – The Deputy Chairperson of the Management Board, Chief Financial Officer (CFO), 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 policies. He ensures control over arrangement of conditions for compliance with accounting, reporting, and methodology in accordance with the national and international standards. He determines the standards of management accounting and reporting, strategic planning and analysis. Monitors the implementation of the Bank's policies in the area of improving the non-performing debt repayment system to ensure the Bank's stable development.

Yeremenko, Fedot Yevheniiovych – The Deputy Chairperson of the Management Board, Chief Risk Officer (CRO) (main risk manager of the Bank), ensures the implementation and continuous functioning of risk management system processes that guarantee timely detection, measurement, monitoring, control, mitigation, and reporting of material risks (credit, market, operating, liquidity, and other significant risks). He is responsible for the activities of risk management units.

Mahdych, Serhii Borysovych – The Deputy Chairperson of the Management Board, responsible for implementing and realizing the Bank's strategy in Corporate Business to achieve and maintain the Bank's competitive advantage and results determined by the Bank's General Strategies.

Rubaj, Sebastian – The Deputy Chairperson of the Management Board (resigned on 28 April 2023 pursuant to Decision of the Supervisory Board dated 20 April 2023 (Minutes No. 402).

Polishchuk, Dmytro Ihorovych – The Deputy Chairperson of the Management Board (appointed on 1 May 2023 pursuant to Decision of the Supervisory Board dated 27 April 2023 (Minutes No. 403), responsible for implementing and realizing the Bank's strategy in Retail Business to achieve and maintain the Bank's competitive advantage and results determined by the Bank's General Strategies.

Kosenko, Nataliia Feliksivna – The Deputy Chairperson of the Management Board, responsible for development and efficient operation of the Bank's regional network and cash collection.

Zahorodnykov, Artur Hermanovych – The Deputy Chairperson of the Management Board, responsible for improving the system of attracting, retaining, and servicing large corporate clients with state ownership. Coordinates the work with executive authorities.

Kostiuchenko, Tetiana Vasylivna – The Deputy Chairperson of the Management Board, determines and coordinates the processes for developing and implementing strategic policies and practices in the area of personnel management aimed at achieving the Bank's financial goals and standards.

Skalozub, Leonid Pavlovych – The Deputy Chairperson of the Management Board, responsible for ensuring the Bank's economic, financial, information, physical, and technical security, arranging for the security and regime, detecting and combatting encroachments on the Bank's reputation and properties, coordinating the work to protect its interests in criminal proceedings.

Horbenko, Hanna Valeriivna – The member of the Management Board, the Bank's employee responsible for for financial monitoring within the Bank, responsible for ensuring the effective functioning and continuous improvement of the internal bank financial monitoring system, including the management of risks of legalization of criminal proceeds and terrorism financing, with unconditional compliance with the effective legislation requirements.

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 operations.

Members of the Management Board have a proper understanding of the Bank's areas of activities 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 activities of the Banking Group to which the Bank belongs.

The organizational form of work of the Management Board, as a collegial body, is a meeting.

During 2023, the Management Board held 54 meetings, of which 49 were regular and 5 – extraordinary.

The Management Board's meetings in 2023 considered, in particular, the following issues:

- On major events to be covered in weekly reports to the Bank's Supervisory Board;
- On the Bank's main focuses – priorities on a monthly basis, results of monthly, quarterly, half-yearly, annual financial results of the Bank's activities;
- On the work of employees and the Bank to ensure its uninterrupted operations and regarding the work of the Bank in the blackout periods;
- Status of complying with the requirements and restrictions established by the NBU for the martial law period;
- Status of implementing the NBU's recommendations and improving the level of organization of corporate governance and internal control in the area of AML/CFT;
- Standard monthly and quarterly reports on risk management, regarding work with distressed assets (including reports on implementing the Strategy and Operating Plan for Managing Non-Performing Assets), quarterly reports on compliance control, quarterly reports on client appeals and social engineering, periodic reports regarding the management of the Bank's information technologies;

- Monthly review and approval of the list of the Bank's related parties.

At the Bank's Management Board meetings:

- Operating (monthly, quarterly, annual) control of the results of the Bank's activities as a whole and business verticals (Retail, Corporate, Investment Businesses) was performed;
- The Bank's budget for 2024 was approved before submitting it to the Bank's Supervisory Board for consideration;
- Implementation of the Bank's Budget for 2023 was monitored;
- Strategies for each of the business verticals were agreed upon, with reference to the effect of the martial law;
- The Bank's Strategy for 2024–2026 was developed and approved before its consideration and approval by the Bank's Supervisory Board;
- Results of the Bank's reviews in the area of AML/CFT, recommendations of the regulator in this field were considered, as well as action plans were developed to eliminate the deficiencies and establish control over their implementation;
- To ensure the continuity of the Bank's activities, operating decisions were taken on an ongoing basis regarding the activities of the Bank and the Bank's employees during the martial law period, in particular, the list of the most critical employees of the Bank was approved, the procedure for their relocation during the blackout period, a decision was taken to transfer the data processing center to Europe;
- On an ongoing basis, reports on the work with the Bank's non-performing assets were reviewed, decisions were taken on implementing the programs for partial debt forgiveness to Retail and Small and Medium-Sized Business customers; the Bank monitored the process of implementing by the Bank's clients of the adopted debt forgiveness programs, decisions were taken to recognize the debt as bad and write it off at the expense of the created provisions or against off-balance sheet accounts;
- On a regular basis, periodic reports on the audit of processes in the Bank, as well as the state of implementing the planned actions by management to eliminate the deficiencies identified during the internal audit were considered;
- For the purpose of prompt response to changes, decisions were taken in respect of changes in the organization structure of the Bank's units that are not under the direct control of the Board, as well as changes in the Retail Business model (by creating tribes); decisions on the effective management of the network of the Bank's outlets were approved, in particular, decisions on closing and suspending/resuming the activities of the Bank's outlets located in the occupied territories;
- In relation to the work with the Bank's personnel, a review on the turnover of the Bank's staff was periodically performed, the results of the personnel satisfaction surveys were considered, and decisions were taken to restore the motivation systems within the Bank's business units;
- Decisions were taken on other important issues of the Bank's activities under the competence of the Management Board in accordance with the Charter, the Regulation on the Management Board of JSC "FUIB", and the legislation of Ukraine.

Relevant decisions were taken on all agenda items, which are stated in minutes of the Bank's Management Board meetings.

The Report on the Results of the Bank's Management Board's Financial and Business Activities for 2023 is placed at the Bank's corporate website at: https://about.pumb.ua/management/head.

To increase the effectiveness of the Management Board's work, the following standing committees of the Management Board function in the Bank:

- Project Committee;
- Technology Committee;
- Operating Risk Management Committee;
- Assets and Liabilities Management Committee;
- Financial Monitoring Committee;
- Ethics and Business Conduct Committee;
- Tariff and Commercial Committee;
- Non-Performing Assets Management Committee;
- Credit Council.

Composition and activities of the Project Committee (the "PC") in 2023.

During 2023, the PC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the PC, Chairperson of the Management Board;
2. Mahdych, Serhii Borysovych, member of the PC, Deputy Chairperson of the Management Board;
3. Zahorodnykov, Artur Hermanovych, member of the PC, Deputy Chairperson of the Management Board;
4. Polishchuk, Dmytro Ihorovych, member of the PC, Deputy Chairperson of the Management Board (effective from 1 May 2023). In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the PC;
5. Kosenko, Nataliia Feliksivna, member of the PC, Deputy Chairperson of the Management Board;
6. Shkoliarenko, Kostiantyn Oleksandrovych, member of the PC, Deputy Chairperson of the Management Board – Chief Financial Officer;
7. Kostiuchenko, Tetiana Vasylivna, member of the PC, Deputy Chairperson of the Management Board;
8. Yeremenko, Fedot Yevheniiovych, member of the PC, Deputy Chairperson of the Management Board, Chief Risk Officer (CRO);
9. Skalozub, Leonid Pavlovych, member of the PC, Deputy Chairperson of the Management Board;
10. Behunov, Andrii Borysovych, member of the PC, Director of the Department of Information Technologies;
11. Nikolaieva, Yuliia Pavlivna, member of the PC, Director of the Strategic Project and Process Management Department.

The personnel composition of the PC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Project Committee.

Within the scope of its activities, in 2023, the PC took decisions on the 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, from initiating the projects to their ending, with control results.

In 2023, the PC held 13 meetings.

In 2023, the PC took decisions, in particular, on the following issues:

- Agreed the implementation of 16 projects of the Bank;
- Approved the consents obtained at the CR Committee for finalizing CME;
- Agreed closing of 9 projects of the Bank;
- Approved one project in the portfolio of lean projects;
- Agreed closing of 4 projects in the portfolio of lean projects;
- Agreed the initiation of 4 CME;
- Agreed the inclusion of 22 projects into the project portfolio for 2024;
- Agreed 1 pre-project;
- Initiated the portfolio of Introducing Changes to FM.

Composition and activities of the Technology Committee (the "TC") in 2023.

During 2023, the TC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the TC, Chairperson of the Management Board;
2. Skalozub, Leonid Pavlovych, member of the TC, Deputy Chairperson of the Management Board;
3. Shkoliarenko, Kostiantyn Oleksandrovych, member of the TC, Deputy Chairperson of the Management Board – Chief Financial Officer;
4. Behunov, Andrii Borysovych, member of the TC, Director of the Department of Information Technologies;
5. Nikolaieva, Yuliia Pavlivna, member of the TC, Director of the Strategic Project and Process Management Department;
6. Hroma, Serhii Hryhorovych, member of the TC, Head of the Information Security Department.

The personnel composition of the TC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Technology Committee.

Within the framework of its competences, during 2023, the TC resolved issues related to agreeing technological solutions offered for implementation in the Bank's projects, took decisions on electing methodologies within IT management, and implemented pilot projects.

In 2023, the TC held 3 meetings.

In 2023, the TC took decisions regarding, in particular, the following issues:

- Applying a Bug Bounty Program;
- Approving the generally accepted methodology of ITIL for managing IT incidents and IT issues;
- Considering the results of pilot implementation of Microsoft SharePoint Online PowerPlatform.

Composition and activities of the Operating Risk Management Committee (the "ORMC") in 2023.

During 2023, the ORMC worked in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the ORMC, Chairperson of the Management Board;
2. Kosenko, Nataliia Feliksivna, member of the ORMC, Deputy Chairperson of the Management Board;
3. Skalozub, Leonid Pavlovych, member of the ORMC, Deputy Chairperson of the Management Board;
4. Yeremenko, Fedot Yevheniiovych, member of the ORMC, Deputy Chairperson of the Management Board, Chief Risk Officer (CRO), with the right of veto;
5. Dybko, Mykola Mykolaiovych, member of the ORMC, Director of the General Banking Risks Department;
6. Serdiuk, Larysa Anatoliivna, member of the ORMC, Head of the Customer Service Organization Department within the Transaction Business Department;
7. Hroma, Serhii Hryhorovych, member of the ORMC, Director of the Information Security Department;
8. Zavhorodnii, Volodymyr Ivanovych, member of the ORMC, Head of the Department for Administrative Work with Personnel;
9. Behunov, Andrii Borysovych, member of the ORMC, Director of the Department of Information Technologies;
10. Kudlai, Serhii Borysovych, member of the ORMC, Head of the Operating Support Center;
11. Shcherbakha, Oleksandr Serhiiovych, member of the ORMC, Director of the Department of Sales and Development of Retail Business;
12. Stadnyk, Anton Serhiiovych, member of the ORMC, Director of the Investment Business Department;
13. Nasiekan, Lesia Oleksandrivna, member of the ORMC, Director of the Legal Department;
14. Poleshchuk, Olena Yuriivna, member of the ORMC, the Chief Accountant.

Director of the Internal Audit Department, with the right to an advisory vote, shall be a mandatory participant (attendee) at all scheduled meetings of the ORMC. Head of the Compliance Control Department (CCO), with the right of veto, shall be a mandatory invitee to the meetings of the ORMC.

The personnel composition of the ORMC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Operating Risk Management Committee.

Within the scope of its competence, during 2023, the ORMC performed operating risk management with the aim of reducing operating losses, improving banking processes, preventing mass failures of systems and technologies, developing, approving, and implementing measures that ensure the continuity of business units and the Bank taken as a whole.

In 2023, the ORMC held 12 meetings.

In 2023, the ORMC took decisions, in particular, on the following issues:

- Considered standard quarterly reports, in particular:
  - Reports on operating risk events registered in the reporting period;
  - Reports on fulfillment of decisions of the ORMC and the ORMC Subcommittees;
  - Results of risk appetite monitoring and operating risk limits;
  - Reports on the effectiveness of the Internal Control System: "Results of Quarterly Monitoring of KCI (Key Control Indicator)";
  - Reports on events registered in the reporting quarter within the System for Ensuring Continuous Activity.

- Consideration of the results of the annual assessment of the ICS by the 2nd line of defense;
- Approval of the list of critical personnel of the System for Ensuring Continuous Activity;
- Approval of Report on Outsourcing for 2022;
- Scenarios for conducting operating risk stress testing in 2023;
- Results of operating risk stress testing for 2023;
- Annual results of monitoring of KCIs for 2022 and approval of KCIs for 2023;
- Results of the annual testing of the Action Plan for the continuous organization of work with cash reserves in storage in the event of unforeseen circumstances and/or emergency situations in JSC "FUIB" in 2023;
- Results of the annual testing of Business Continuity Plan in 2023;
- Results of stress testing of operating risk events related to the military actions in Ukraine;
- Considered results of conducting BUSINESS IMPACT ANALYSIS (BIA) in the Bank's units in 2023;
- Results of self-assessment of ISMS for 2022.

Among other things, the ORMC took decisions regarding the management of realized operating risk events, monitored the effectiveness of decisions taken by the ORMC Subcommittees, and evaluated the effectiveness of functioning of the following:

- Information Security Management System;
- Fraud Risk Management System;
- Systems for Ensuring Continuous Activity;
- Third Party Risk Management Systems;
- Internal Control Systems.

During 2023, the ORMC had the following Subcommittees working within it:

- Personnel Subcommittee;
- Processes Subcommittee;
- Systems Subcommittee;
- External Factors Subcommittee;
- Information Security Subcommittee.

The ORMC also approved changes to the composition of Subcommittees.

Composition and activities of the Assets and Liabilities Management Committee (the "ALMC") in 2023.

During 2023, the ALMC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the ALMC, Chairperson of the Management Board;
2. Yeremenko, Fedot Yevheniiovych, member of the ALMC, Deputy Chairperson of the Management Board, Chief Risk Officer (CRO);
3. Mahdych, Serhii Borysovych, member of the ALMC, Deputy Chairperson of the Management Board;
4. Zahorodnykov, Artur Hermanovych, member of the ALMC, Deputy Chairperson of the Management Board;
5. Shkoliarenko, Kostiantyn Oleksandrovych, member of the ALMC, Deputy Chairperson of the Management Board – Chief Financial Officer;
6. Polishchuk, Dmytro Ihorovych, member of the ALMC, Deputy Chairperson of the Management Board (effective from 1 May 2023).

1\. In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the ALMC;

7\. Dybko, Mykola Mykolaiovych, member of the ALMC, Director of the General Banking Risks Department;

8\. Stadnyk, Anton Serhiiovych, member of the ALMC, Director of the Investment Business Department.

The personnel composition of the ALMC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Assets and Liabilities Management Committee.

Within the scope of its competence, during 2023, the ALMC supported and improved the quality of the processes of shaping the Bank’s strategy and business plan, ensured the implementation of the Bank’s planned indicators by developing relevant policies, forming draft management decisions, and adopting them within the scope of its competence.

In 2023, the ALMC held 35 meetings.

In 2023, the ALMC took decisions, in particular, in respect of the following issues:

- Analysis and forecast of indicators of the Bank’s activities:
  - External ratios (the NBU, the Banking Group, etc.);
  - Effectiveness: the Bank’s spread and margin.
  - Review of reports of the Market and Operating Risks Department on the control of liquidity risks, currency risks, interest rate risks, trading risks, and issuer risks:
  - Report by risks;
  - Index of the state of the financial market of Ukraine;
  - GAP reports on liquidity and interest rate GAPs, factor analysis;
  - Report on concentrations;
  - Stress testing of liquidity risk;
  - Stress testing of interest rate risk;
  - Analysis of risk indicators of increase in probability of default of DGLBs.
- Analysis and forecast of the Bank’s monetary position:
  - Liquidity: analysis and forecast of liquidity position;
  - Proposals on forming assets and liabilities.
- Interest rate policies of the Bank:
  - Transfer rates;
  - Limits on growth standards.

Composition and activities of the Financial Monitoring Committee (the “FMC”) in 2023.

During 2023, the FMC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the FMC, Chairperson of the Management Board;
2. Mahdych, Serhii Borysovych, member of the FMC, Deputy Chairperson of the Management Board;
3. Polishchuk, Dmytro Ihorovych, member of the FMC, Deputy Chairperson of the Management Board (effective from 5 May 2023). In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the FMC;
4. Kosenko, Nataliia Feliksivna, member of the FMC, Deputy Chairperson of the Management Board;
5. Skalozub, Leonid Pavlovych, member of the FMC, Deputy Chairperson of the Management Board;
6. Yeremenko, Fedot Yevheniiovych, member of the FMC, Deputy Chairperson of the Management Board, Chief Risk Officer (CRO);
7. Horbenko, Hanna Valeriivna, member of the FMC, member of the Management Board, Director of the Financial Monitoring Department, employee of the Bank responsible for Financial Monitoring;
8. Serdiuk, Vira Oleksandrivna, member of the FMC, Head of the Compliance Control Department (CCO);
9. Nasiekan, Lesia Oleksandrivna, member of the FMC, Director of the Legal Department.

Director of the Internal Audit Department, with the right to an advisory vote, shall be a mandatory participant (attendee) at all scheduled meetings of the FMC.

The personnel composition of the FMC is determined in accordance with the Regulation on the Collegial Body of JSC “FUIB”, the Financial Monitoring Committee.

Within the scope of its competence, the FMC, in 2023, took decisions to ensure functioning of the risk management system on legalization (laundering) of proceeds obtained through crime, combat financing of terrorism and financing of the proliferation of weapons of mass destruction in the Bank, as well as on taking appropriate precaution measures to prevent, limit, and/or reduce risks to an acceptable level.

In 2023, the FMC held 13 meetings.

In 2023, the FCM took decisions, in particular, in respect of the following issues:

- Considered the results of the analysis of financial transactions of customers in respect of which suspicion arises and approved precaution measures in order to minimize the risks of legalization of proceeds from crime/terrorism;
- Considered the issues resulting from the refusal from financial transactions and/or customer service, including in the case of establishing an unacceptably high level of risk for a customer;
- Considered problematic issues that arise during the identification and study of customers;
- Changes in the legislation on financial monitoring, measures that should be taken by the Bank and deadlines for updating the Bank’s internal documents on financial monitoring considering the specified changes;
- Considered the results of the analysis on introduction of new banking products and the related compliance risks of financial monitoring;
- Considered problematic issues that arise in the course of training the Bank’s employees, its agents (their employees);
- Considered problematic issues related to the establishment of business relations and maintenance of PEP;
- Considered other issues that arise during implementation of measures to prevent the legalization (laundering) of proceeds from crime, or the terrorist financing or financing the proliferation of weapons of mass destruction.

Composition and activities of the Ethics and Business Conduct Committee (the “Committee”) in 2023.

During 2023, the Committee functioned in the following composition:

1. Kostiuchenko, Tetiana Vasylivna, Chairperson of the Committee, Deputy Chairperson of the Management Board of JSC “FUIB”;
2. Chernenko, Serhii Pavlovych, member of the Committee, Chairperson of the Management Board of JSC “FUIB”;
3. Mahdych, Serhii Borysovych, member of the Committee, Deputy Chairperson of the Management Board of JSC “FUIB”;
4. Polishchuk, Dmytro Ihorovych, member of the Committee, Deputy Chairperson of the Management Board (effective from 1 May 2023). In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the Committee;
5. Skalozub, Leonid Pavlovych, member of the Committee, Deputy Chairperson of the Management Board of JSC “FUIB”;
6. Serdiuk, Vira Oleksandrivna, member of the Committee, Head of the Compliance Control Department (CCO).

The expert appointed by the Supervisory Board of the Bank and Director of the Internal Audit Department, with the right to an advisory vote, shall be mandatory participants (attendees) at all scheduled meetings of the Committee.

The personnel composition of the Committee is determined in accordance with the Regulation on the Collegial Body of JSC “FUIB”, the Ethics and Business Conduct Committee.

Within the scope of its competence, the Ethics and Business Conduct Committee of the Bank, during 2023, was engaged in settling the negative factors of compliance risk, risks related to corporate ethics and business conduct, reputational risks, fraud risks, as well as other negative factors related to activities of the Bank’s staff, ensuring the minimized consequences of such negative factors, took decisions to prevent their recurrence.

In 2023, the Ethics and Business Conduct Committee held 3 meetings at which the decisions were taken, in particular, in respect of the following issues:

- Considered the statistics of appeals to the SCM Helpline regarding JSC “FUIB”’s activities;
- Considered the report on the work of the ORMC’s Personnel Subcommittee, namely:
- Statistics of violations in labor discipline by employees of the Bank;
- Disciplinary sanctions (including termination of employment at the Bank’s initiative) and other measures applied to violators.

Composition and activities of the Tariff and Commercial Committee (the "TCC") in 2023.

During 2023, the TCC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the TCC, Chairperson of the Management Board;
2. Shkoliarenko, Kostiantyn Oleksandrovych, member of the TCC, Deputy Chairperson of the Management Board – Chief Financial Officer. In the course of remote voting by survey or during the absence of the Deputy Chairperson of the Management Board – Chief Financial Officer of the Bank, the authorities were delegated to Ovchynnikov, Valerii Anatoliiovych, Head of the Assets and Liabilities Management Department.
3. Mahdych, Serhii Borysovych, member of the TCC, Deputy Chairperson of the Management Board;
4. Zahorodnykov, Artur Hermanovych, member of the TCC, Deputy Chairperson of the Management Board;
5. Sikirska, Kseniia Serhiivna, member of the TCC, Director of the Marketing Department;
6. Polishchuk, Dmytro Ihorovych, member of the TCC, Deputy Chairperson of the Management Board (effective from 1 May 2023). In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the TCC.

The personnel composition of the TCC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Tariff and Commercial Committee.

In 2023, within the scope of its competence, the TCC managed the Bank's commercial activities, product and customer portfolio, ensured control of the Bank's market position and realization of market opportunities for the Bank's strategic development.

In 2023, the Tariff and Commercial Committee held 95 meetings.

In 2023, the TCC took decisions, in particular, in respect of the following issues:

- Introduced changes to tariffs, tariff packages for servicing corporate customers;
- Agreed standards for the existing products of Corporate and Retail Businesses;
- Introduced changes to tariffs for cash collection services, transportation of currency values and services provided through outlet cash desks;
- Introduced changes to parameters of deposit products of Retail Business;
- Introduced changes to basic tariffs for services to individuals;
- Cancelled commission fees for collateral evaluation (for projects with medium-sized and large-sized customers);
- Introduced new deposit products in the banking line;
- Changed pricing under the state program of Affordable Loans 5-7-9%;
- Introduced changes to the authorities on setting individual rates and tariffs for corporate customers in JSC "FUIB";
- Cancelled fees on the loans to medium-sized and large-sized customers that are early repaid or repaid in time and ensured by government guarantees;
- Suspended the service of Online Overnight for corporate customers in all segments;
- Servicing military bonds (broker services);
- Approved basic tariffs of the Bank on operations with payment cards for partner banks;
- Supported business in Kherson and Khersonska Region due to the explosion at the Kakhovka Hydroelectric Power Plant in part of trade acquiring;
- Accepting payments without commission to the accounts of charitable funds for fundraising to the Armed Forces of Ukraine;
- Delegated the authorities on setting standard rates on active operations at the level lower than transfer ones.

Composition and activities of the Non-Performing Assets Management Committee (the "NPAM Committee") in 2023.

During 2023, the NPAM Committee functioned in the following composition:

1. Chernenko, Serhii Pavlovych, member of the NPAM Committee, Chairperson of the Management Board;
2. Yeremenko, Fedot Yevheniiovych, Chairperson of the NPAM Committee, Deputy Chairperson of the Management Board, Chief Risk Officer (CRO);

3. Shkoliarenko, Kostiantyn Oleksandrovych, member of the NPAM Committee, Deputy Chairperson of the Management Board – Chief Financial Officer;
4. Skalozub, Leonid Pavlovych, member of the NPAM Committee, Deputy Chairperson of the Management Board.

The personnel composition of the NPAM Committee is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Non-Performing Assets Management Committee, in accordance with which meetings of the NPAM Committee may also be attended by the experts with the right to an advisory vote appointed by the Bank's Board.

Within the scope of its competence, the NPAM Committee, in 2023, took decisions on settling non-performing assets, potentially non-performing assets that have not been transferred to the work of the NPAM units, monitored the fulfillment of the Strategy for Managing Non-Performing Assets and the Operating Plan, and also exercised control over the adequate assessment of the level of credit risk and the volume of provisions by all non-performing assets, without exception, which are within the competence of the Bank's credit body.

In 2023, the NPAM Committee held 88 meetings.

In 2023, the NPAM Committee took decisions, in particular, on the following issues:

- Agreeing reports on implementing the Strategy for Managing Non-Performing Assets and the Operating Plan;
- Settling the amounts due by debtors/counterparties;
- Decisions on managing repossessed properties, including their sales;
- Decisions on managing non-performing assets.

Composition and activities of the Credit Council of the Bank (the "CC") in 2023.

The Credit Council was created for the purpose of preventing violations in risk appetite indicators and risk limits when implementing the Bank's business plan and achieving the set strategic goals in terms of lending.

During 2023, the CC functioned in the following composition:

1. Chernenko, Serhii Pavlovych, Chairperson of the CC, Chairperson of the Management Board;
2. Mahdych, Serhii Borysovych, member of CC, Deputy Chairperson of the Management Board,;
3. Yeremenko, Fedot Yevheniiovych, member of CC, Deputy Chairperson of the Management Board;
4. Skalozub, Leonid Pavlovych, member of CC, Deputy Chairperson of the Management Board;
5. Polishchuk, Dmytro Ihorovych, member of CC, Deputy Chairperson of the Management Board (effective from 2 May 2023 pursuant to Decision of the Management Board dated 2 May 2023 (Minutes No. 949). In the period from 1 January 2023 to 28 April 2023 inclusive, Rubaj, Sebastian, Deputy Chairperson of the Management Board, was the member of the CC.

The personnel composition of the CC is determined in accordance with the Regulation on the Collegial Body of JSC "FUIB", the Credit Council, in accordance with which meetings of the CC may also be attended by the experts with the right to an advisory vote appointed by the Bank's Board.

In 2023, the CC held 294 meetings.

In 2023, the CC took decisions, in particular, on the following issues:

- Agreed new credit projects for borrowers;
- Introduced changes to the terms and conditions of funding customers;
- Considered annual reviews on the existing loan agreements;
- Discussed strategies on cooperation with customers;
- Agreed changes to regular products;
- Accredited insurance companies;
- Established/extended/changed limits on interbank operations;
- Set limits per debtor by factoring transactions and trade financing;
- Agreed changes to internal regulations on collegial bodies and delegated authorities for taking decisions;
- Considered reports on the quality of loan portfolio.

In their activities, the Bank's Management Board's committees are governed by the Laws of Ukraine "On Banks and Banking", "On Joint Stock Companies", other laws and regulations of Ukraine, regulations of the NBU, the Bank's Charter, decisions of the General Meetings, as well as the Regulations on relevant committees.

In 2023, there were no cases of imposition of the right of veto on implementation of decisions of the Management Board's committees.

The decisions taken on the issues discussed at the meetings are recorded in relevant minutes of the meetings of the Bank's Management Board's Committees.

5) Information about the availability of the Corporate Secretary and Report on the Results of His/Her Activities.

The position of the Corporate Secretary is provided for in the Bank.

In the period from May 2017 to October 2023, the functions of the Corporate Secretary of the Bank were performed by Nasiekan, Lesia Oleksandrivna, Director of the Legal Department, pursuant to Decision of the Board dated 18 May 2017 (Minutes No. 274). Effective from 20 October 2023, Stepanchenko, Nataliia Heorhiivna was appointed to the position of the Corporate Secretary of the Bank pursuant to Decision of the Bank's Board dated 19 October 2023 (Minutes No. 413).

The Corporate Secretary shall annually report to the Bank's Board on his/her work.

Report of the Corporate Secretary for 2023 as approved by Decision of the Bank's Board dated 22 February 2024 (Minutes No. 420):

1. During 2023, the Corporate Secretary ensured for preparing and conducting, as well as executing minutes of the General Meetings, meetings of the Supervisory Board.
2. The Corporate Secretary continuously monitors the legislation requirements in the area of corporate governance, in the fulfillment of which, in 2023, the following was completed.
   2.1. The Corporate Secretary arranged for an annual assessment of the compliance of the Bank's officials with the qualification requirements set by the NBU regarding their business reputation and professional suitability, and of independent directors with the requirements regarding their independence.
   2.2. The Corporate Secretary arranged for an annual assessment of the effectiveness of the Bank's Board in general, members of the Board and its Committees for 2022. Based on the results of such an assessment, the Board developed and approved a range of measures to improve (increase the efficiency of) the Bank's Board (Minutes No. 398 dated 23 February 2023).
   2.3. In the fulfillment of the requirements of Subpara. 15, Article 39 of the Law of Ukraine "On Banks and Banking", the Corporate Secretary arranged for an assessment of the effectiveness of the second line of defense in control units of JSC "FUIB" for 2022 (Compliance Control Department, risk management units, as well as CCO and CRO).
3. Interaction with the Bank's shareholders.
   3.1. The Corporate Secretary consistently monitors the compliance of significant interest holders with the requirements of the NBU regarding their financial/property status, business reputation, and timely informs the NBU about changes occurring among the significant interest holders.
   3.2. To confirm the impeccable business reputation of the significant interest holders, as well as to confirm their property/financial status, the Corporate Secretary ensured for submitting relevant documents to the NBU.
   3.3. The Corporate Secretary took measures to bring the Bank's Charter in line with the Law of Ukraine "On Joint Stock Companies" as a result of amendments to it. The new version of the Bank's Charter was approved by Decision of the GSM dated 28 April 2023 (Minutes No. 89). On 12 July 2023, the Charter was state registered (with the deadline for bringing the Charter in compliance with the Law being 31 December 2023). In connection with the change in the composition of the Board as a result of the included independent director by the GSM dated 20 September 2023, the Bank's Charter was approved in a new version (Minutes No. 90), with the state registration of which performed on 2 October 2023.
   3.4. The Bank's internal regulations on collegial bodies were brought in line with the Law of Ukraine "On Joint Stock Companies". Decision of the GSM dated 28 April 2023 (Minutes No. 89) approved a new version of the Regulation on General Meetings and the Regulation on the Supervisory Board of JSC "FUIB". Decision of the GSM dated 20 September 2023 (Minutes No. 90) approved a new version of the Regulation on the Supervisory Board of JSC "FUIB" in connection with the change in the Board's composition.
   3.5. The Corporate Secretary supported the process of re-electing the Bank's Board (obtaining consents from candidates for election to the Board, filling out necessary questionnaires, determining collective suitability, drafting and concluding agreement, informing the NBU).

4. Reports on the Bank’s system of corporate governance.

   In the fulfillment of the legislation requirements, the Corporate Secretary supported the preparation of the following reports for 2023 within the framework of the Bank’s corporate governance:

   4.1. Report on remuneration to members of the Supervisory Board (in accordance with Subpara. 14, Para. 2, Article 39 of the Law of Ukraine “On Joint Stock Companies” and the Regulation on Remuneration Policies in Banks, as approved by Resolution of the NBU’s Board No. 153 dated 30 November 2020);

   4.2. Report on remuneration to members of the Management Board (in accordance with the Regulation on Remuneration Policies in Banks, as approved by Resolution of the NBU’s Board No. 153 dated 30 November 2020);

   4.3. Report on remuneration to significant persons (in accordance with the Regulation on Remuneration Policies in Banks, as approved by Resolution of the NBU’s Board No. 153 dated 30 November 2020);

   4.4. Report on the activities of the Supervisory Board (in accordance with Subpara. 15, Para. 2, Articles 39 and 70 of the Law of Ukraine “On Joint Stock Companies”);

   4.5. Report on assessing the effectiveness of the Supervisory Board of JSC “FUIB” (in accordance with Paras. 60–63 of the Methodology Recommendations on the Organization of Corporate Governance in Banks of Ukraine, as approved by Decision of the NBU’s Board No. 814-рш dated 3 December 2018);

   4.6. Report on corporate governance of the Bank (in accordance with Article 127 of the Law of Ukraine “On Capital Markets and Organized Commodity Markets” and Article 122 of the Law of Ukraine “On Financial Services and State Regulation of Financial Services Markets”);

   4.7. Report of the Management Board on financial and business activities of JSC “FUIB” (in accordance with Subpara. 16, Para. 2, Article 39 of the Law of Ukraine “On Joint Stock Companies”);

   4.8. Report of the Bank as an issuer of securities for 2022 and quarterly reports of the issuer for Quarters I–IV of 2023 (in compliance with Chapters 3, 4 of Section III “Regulation on Disclosure of Information by Issuers of Securities”, as approved by Decision of the National Commission for Securities and Stock Market dated 3 December 2013);

   4.9. Annually, a report is prepared and submitted to the National Bank of Ukraine on the issues discussed at the meetings of the Bank’s Board during the year, including information on the state of implementing the Bank’s strategy, business plan, strategy and operating plan for managing non-performing assets of the Bank, as well as the decisions taken in respect of them (in compliance with the requirements of 39 of the Law of Ukraine “On Banks and Banking”).

During the reporting period, the Corporate Secretary consistently monitored the timely submission to the NBU, the National Commission for Securities and Stock Market and published on the Bank’s website the required information and documents in accordance with the legislation requirements, in particular, based on the results of the GSM, the decisions taken on changes in the management team, changes to the Bank’s general organization structure, on approval of the Bank’s main areas of activities and strategies, reports on the results of activities of the Board and its committees.

The Corporate Secretary brought the Section of the Bank’s external website, which discloses information about the Bank as an issuer of securities, into compliance with the legislation requirements (in accordance with Para. 14, Subsection 1, Section II of Decision of the National Commission for Securities and Stock Market No. 608 dated 6 June 2023 “On Approval the Regulation on Disclosure of Information by Issuers of Securities, as as well as Persons Using Such Securities as Collateral”).

5. Reports of the Bank as an issuer of securities.

   5.1. The Corporate Secretary ensured for timely disclosure of information (in compliance with the requirements of the Regulation on Disclosure of Information by Issuers of Securities, as approved by Decision of the National Commission for Securities and Stock Market No. 2826 dated 3 December 2013).

   5.2. Ensured for disclosure of interim information compiled based on the results of each quarter.

   5.3. Ensured for disclosure of regular information on the results of the Bank’s financial and business activities for 2022. Draft Report was agreed by Decision of the Board dated 27 March 2023 (Minutes No. 400).

6. Measures undertaken by the Corporate Secretary aimed at improving the corporate governance system.

   6.1. Amended the Principles (Code) of Corporate Governance of JSC “FUIB” in order to update it. The new version of the Code was approved by Decision of the GSM dated 20 September 2023 (Minutes No. 90).

   6.2. Amended the Regulation on the Management Board of JSC “FUIB” for the purpose of bringing it in line with the Law of Ukraine “On Joint Stock Companies”. The Regulation in the new version was approved by Decision of the Board dated 20 July 2023 (Minutes No. 407).

   6.3. Updated the Regulation on the Corporate Secretary of JSC “FUIB” (approved by Decision of the Board dated 19 October 2023 (Minutes No. 413)).

6.4. Updated the Regulation on the Process for Searching, Assessing, and Selecting Candidates to Members of the Supervisory Board/Management Board of JSC "FUIB" (approved by Decision of the Board dated 14 December 2023 (Minutes No. 416)).

6.5. Updated the Regulation on Corporate Governance on the Banking Group of JSC "FUIB" (approved by Decision of the Board dated 23 February 2023 (Minutes No. 398)).

7. During 2023, the Corporate Secretary of the Bank regularly monitored and facilitated the implementation of changes in the legislation of Ukraine in the area of corporate governance.

7.1. The Corporate Secretary is a member of the Committee on Legal Support of Banking Activities and Protection of Creditors' Rights of the Independent Banking Association of Ukraine (the "IBAU"), which provides an opportunity to develop the prospective legislation on this platform. The work in the Association at the stages of developing regulations, as well as participating in working groups, panel discussions, meetings of specialized committees of the High Council of Justice has a positive effect on the Bank's activities and protection of its interests.

7.2. The Corporate Secretary is a member of the Committee on Issues of Functioning of Issuers and Corporate Management of the National Commission for Securities and Stock Market.

Within the framework of this Committee, the Corporate Secretary took part in discussing the Regulation on Disclosure of Information by Issuers of Securities, as well as Persons Using Such Securities as Collateral, as approved by Decision of the National Commission for Securities and Stock Market No. 608 dated 6 June 2023. The norms of this Regulation are used by the Bank when disclosing information as an issuer of securities effective from 1 January 2024.

Thus, in the reporting period, the activities of the Corporate Secretary were aimed at maintaining a stable level of corporate governance, maintaining a balance of interests of the Bank and shareholders, as well as achieving order in the work of the Council. During 2023, the Corporate Secretary ensured the implementation of a wide range of tasks and functions provided for by the Bank's internal documents, in order to effectively fulfill the duties assigned to him/her.

During 2023, the Corporate Secretary properly ensured for organizing the preparation of documents and technical support for the activities of the GSM and the Board within the framework of the Corporate Secretary's functions. The Corporate Secretary monitored and controlled the compliance of the Bank's corporate governance system with the requirements of the legislation.

The main goal of the Corporate Secretary's activities for 2024 is to further improve the Bank's corporate governance system in accordance with the best European practices of corporate governance.

6) Description of key characteristics of the Bank's internal control and risk management systems and a list of the Bank's structural units responsible for ensuring the work of internal control and risk management systems.

The Board of the Bank ensures the effectiveness of the internal control system and the risk management system, which are parts of the overall corporate governance system and function through:

- Approving strategies, business plan and monitoring their implementation;
- Approving the Risk Appetite Statement and a list of significant risks subject to managing with the risk management system;
- Monitoring the compliance of the current internal control system and the Bank's risk management system with the complexity, types, volumes, nature of operations, organization structure, and risk profile;
- Reviewing management reporting on risks, control, and decision-making regarding the application of adequate measures to mitigate risks or improve controls.

In 2023, the Board approved the Declaration on Sustainable Development of JSC "FUIB", which defines the strategic goals, principles, and organization structure of the Bank's sustainable development. The Risk Appetite Statement of JSC "FUIB" takes into account the negative manifestation of environmental risks due to the link with the existing significant risks of the Bank: credit and operating risks.

The Supervisory Board of the Bank approved the Risk Management Policy and the Risk Management Strategy which state:

- Key objectives of risk management;
- List of significant risks;
- Principles and approaches to determining the acceptable ratio of profitability and risks;
- General risk management principles;

- Procedure and terms for providing the Board, as well as the Management Board of the Bank, with management reporting on risks.

The risk management system is organized by defining a clear risk management process through the establishment of risk appetites and risk limits for each type of significant risks, the purpose of which is to implement a systemic process of detecting, measuring, monitoring, controlling, reporting, and mitigating all types of risks at all organization levels of the Bank.

Key responsibilities for ensuring the effective risk management are performed by the following structural units:

1) Risk management units reporting to the Deputy Chairperson of the Management Board for Risk Management (Chief Risk Officer/CRO):
   - *Credit risks*: Department of Corporate Risks; Small Business Risk Management Department; Department of Retail Risks; Micro-Lending Risk Department; Department for Work with Pledged Properties;
   - *Operating risk, market risk, risk of financial institutions, and liquidity risk*: General Banking Risk Management Department.
2) Department of Compliance Control subordinated to Head of Department (CCO) (Chief Compliance Officer).

CRO and CCO are subordinated and reporting to the Bank's Board, which ensures independence in risk management.
To ensure the stability and security of the Bank's business, together with the risk management system, an internal control system has been implemented, which is based on the COSO principles and regulated by the Policy on Organization of the Internal Control System.

The internal control system ensures the achievement of operating, information, and compliance goals and provides management with a reasonable guarantee for achieving general goals and objectives, increasing the level of the internal control organization, the effectiveness of functioning of internal controls, and improving the effectiveness of performed tasks and ensuring the stability, safety, and effectiveness of operations and processes.

The Bank ensures functioning of the internal control system through the following:

- Management control over compliance with the Ukrainian legislation and internal documents;
- Management of conflict of interest situations;
- Segregation of duties in the course of performing the activities;
- Implementation, ensuring functioning, and control over the effectiveness of the risk management system (including when considering business initiatives to create/optimize/improve products and services);
- Control over information security and data exchange;
- Implementation of internal control procedures;
- Regular monitoring of the internal control system;
- Implementation of the internal audit procedures.

The internal control system is built on the model of three lines of defense.

- On *the first line of defense*, there are business units and support units whose main function is risk detection. The units that carry out banking operations and provide their support are involved in the process of identifying, assessing, and monitoring risks, fulfill the requirements of internal regulations on risk management, and also take into account the level of risk when performing operations.
- On *the second line of defense*, there is the Risk Management and Compliance Control Department, the main functions of which include: develop risk management mechanisms, methodology, assessment, and monitoring of the level of risks, prepare risk reports, perform an aggregate risk assessment, assess the ratio of risk to established risk appetite.
- On *the third line of defense*, there is the Internal Audit Department, which conducts an independent assessment of the effectiveness of the risk management system, corporate governance, and internal control system, identifies violations and makes suggestions for improving those systems.

The Board, the Management Board, and the Operating Risk Management Committee consistently monitor the adequacy and effectiveness of the internal control system in accordance with the methodology approved by the Bank, and the Internal Audit Department assesses the effectiveness of the internal control system annually for the Bank's Board.

7) Information about the availability of the Bank's Risk Appetite Statement and description of its key provisions.

The Bank has the Risk Appetite Statement in place. During 2023, the Risk Appetite Statement was amended three times, which was approved on 23 February 2023 (Minutes No. 398), 20 July 2023 (Minutes No. 407), and 14 December 12 2023 (Minutes No. 416).

Key provisions of the Bank's Risk Appetite Statement:

1. The Statement determines the following:

   - Aggregate level of risk appetite and the types of risks that the Bank intends to accept and maintain in order to achieve business goals;
   - Maximum exposure to the risk acceptable for the Bank (Risk Capacity);
   - Quantitative and qualitative indicators of risk appetite which take into account capital adequacy, liquidity, operating profitability, and cost of risk;
   - Risk appetite level for each type of risk (individual level), which should be the basis for setting limits, as well as a minimum list of quantitative and qualitative indicators of risk appetite for each type of risk;
   - Calculation of risk appetite and a list of assumptions used by the Bank during such a calculation.

2. The Bank establishes a list of the following significant risks, for which the risk appetite (quantitative and qualitative) is calculated, and the tolerance levels for them:

   - Credit risk of Corporate Business (including corporate, small and micro-business customers);
   - Credit risk of Retail Business;
   - Liquidity risk;
   - Interest rate risk of the banking book;
   - Foreign currency risk;
   - Price risk of UAH-Denominated DGLBs;
   - Price risk of Sovereign Bonds G7;
   - Risk of default of DGLB issuer;
   - Credit risk of financial institutions;
   - Operating risk;
   - Compliance risk;
   - Risk of AML/CFT (within compliance risk).

3. The environmental and social risk management process of JSC "FUIB" takes into account climate risks, assessing their negative manifestation due to the link with credit and operating risks.
4. The Bank calculates and monitors risk appetite indicators on a quarterly basis. The general report contains the actual indicators of risk appetites in respect of significant risks calculated as at the reporting date in comparison with the established target limit indicators of those risks at the beginning of the year. The report is submitted for consideration to the Bank's Management Board and the Bank's Board.

8) List of persons who, directly or indirectly, hold significant packages of the Bank's shares.

Holders of significant packages of shares in the Bank:

1. SCM HOLDINGS LIMITED (Cyprus) is a director owner of an interest in the amount of 7.66%;
2. LIMITED LIABILITY COMPANY "SCM FINANCE" (Ukraine) is a director owner of an interest in the amount of 92.34%;
3. PRIVATE JOINT STOCK COMPANY "SYSTEM CAPITAL MANAGEMENT" holds an indirect interest of 92.42% (effective from 23 February 2024, as a result of reorganization (transformation), it changed the name to LIMITED LIABILITY COMPANY "SYSTEM CAPITAL MANAGEMENT");
4. Akhmetov, Rinat Leonidovych (citizen of Ukraine) is an ultimate beneficial owner and holds an indirect interest of 100%.

9) Information about any restrictions on participation and voting rights of the Bank's shareholders (participants) at the issuer's general meetings.

There are no restrictions on participation and voting rights of the Bank's shareholders in the General Shareholders' Meetings of the Bank.

10) Procedure for appointing and dismissing the Bank's officials.

The election and resignation of the Bank's Supervisory Board's members take place by decisions of the GSM. According to the requirements of the Law of Ukraine "On Joint Stock Companies", members of the Supervisory Board are elected by cumulative voting, and the resignation and election of the Chairperson of the Supervisory Board of the Bank is performed by voting, where the decision is considered to be adopted if it was voted for by a simple majority of the shareholders registered for participation in the GSM and who are holders of voting shares on the relevant issue.

Appointment and termination of powers/dismissal of the Chairperson and members of the Bank's Management Board belong to the exclusive competence of the Bank's Board. The decision is taken by a simple majority of members of the 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 Board in the process of decision-making, the vote of the Chairperson of the Board shall be decisive.

11) Authorities of the issuer's officials.

The authorities of the Bank's officials are set out in the Bank's Charter, the Regulation on the Supervisory Board of JSC "FUIB", and the Regulation on the Management Board of JSC "PUMB", which are freely available on the Bank's official website at: https://about.pumb.ua/management.

The Bank also has an Order according to which members of the Management Board are allocated with positions and functional duties according to the Bank's areas of activities.

12) Information about remuneration of members of the Bank's Management Board and Supervisory Board.

Members of the Bank's Board perform their duties on a paid or free basis. The procedure for paying remuneration to the Chairperson and members of the Board of the Bank is determined by the legislation, the Remuneration Policies in JSC "FUIB", the Regulation on Remuneration to Members of the Supervisory Board of JSC "FUIB", as well as the civil law agreement (the "Agreement") concluded with each member of the Bank's Board.

The General Shareholders' Meeting of the Bank approves the terms and conditions of the Agreements concluded with members of the Bank's Board and sets the amount of their remuneration.

The Bank has introduced the payment of a fixed remuneration to members of the Board.

In the period from 1 January 2023 to 30 September 2023, five members of the Bank's Board received fixed remuneration in accordance with the concluded Agreements, the terms and conditions of which were approved by Decision of the extraordinary General Shareholders' Meeting dated 25 November 2021 (Minutes No. 87), in the period from 1 October 2023 to 31 December 2023, fixed remuneration was received by six members of the Bank's Board in accordance with the concluded Agreements, the terms and conditions of which were approved by Decision of the extraordinary General Shareholders' Meeting dated 20 September 2023 (Minutes No. 90).

Other members of the Bank's Board perform their duties free of charge.

Remuneration to a resident member of the Bank's Board is paid in the national currency of Ukraine, and to a non-resident member – in USD.

The Bank's remuneration system provides for the application of incentive programs to members of the Bank's Board.
The Agreements concluded with members of the Bank's Board provide for the following components of the incentive program:

- Compensation for the expenses actually incurred in connection with the performance of the duties of a member of the Bank's Board;
- Financing transportation and accommodation expenses related to the performance of the duties of a member of the Bank's Board;
- Property (civil and legal) professional liability insurance;
- Payment for participation in educational events (conferences, forums, seminars, and other events within the competence of the relevant member of the Board).

The Bank's remuneration system does not provide for the payment of variable remuneration to members of the Bank's Board.

Based on the performance in 2023, the following payments were made to members of the Bank's Board:

- Basic fixed remuneration in the total amount of: USD 557,492;
- Compensation of incurred costs in the total amount of: USD 2,543.

The specified amounts of rewards and compensations were paid in full in accordance with the terms and conditions of the concluded Agreements.

The full report on remuneration to members of the Bank's Board for 2023 is freely available on the Bank's official website at: https://about.pumb.ua/management/supervisory-board.

The procedure for paying remuneration to the Chairperson and members of the Bank's Management Board is determined by the legislation, the Remuneration Policies in JSC "FUIB", the Regulation on Remuneration to the Management Board of JSC "FUIB", as well as the employment agreements concluded with each member of the Bank's Management Board in accordance with a Decision of the Bank's Board.

The remuneration system to members of the Management Board consists of the following components:

- Fixed remuneration (salary);
- Variable remuneration;
- Incentive programs.

Decisions on the payment of variable remuneration to members of the Management Board, the period and the amount are approved by the Bank's Board upon submission of the Remuneration and Appointments Committee.

When determining the amount of the variable remuneration, the following performance assessment criteria are taken into account:

- Fulfillment of financial indicators of the Bank's activities (achievement of key performance indicators approved by the Bank's Board);
- Realization and implementation of the Bank's strategic development program;
- Compliance with the Bank's capital requirements;
- Maintaining an adequate level of liquidity;
- Fulfillment of individual goals.

The terms of applying the components of the incentive program to members of the Bank's Management Board are determined by decisions of the Bank's Board, the terms of employment agreements, and the Regulation on Remuneration to Members of the Management Board of JSC "FUIB".

The remuneration system to members of the Management Board provides for the following components of the incentive program, but not limited to:

- Reimbursement of expenses related to the performance of official functions on a business trip (per diem, accommodation, travel tickets, meals, taxi services, and other);
- Representation costs;
- Expenses for training and improving professional qualifications;
- Expenses for medical insurance of a member of the Management Board and his/her family members;
- Financial assistance in accordance with the current procedure in the Bank;
- Car rental compensation;
- Expenses related to refueling a motor vehicle with fuel and lubricants, car washing, maintenance, repair and parking services;
- Property (civil and legal) professional liability insurance of a member of the Bank's Management Board;
- Reimbursement of other expenses established in the relevant policies of the Bank.

Based on the performance in 2023, the following payments were made to members of the Bank's Management Board:

- Fixed remuneration – UAH 113,023,364.82;
- Total amount of variable remuneration (annual bonuses based on performance for 2022) – UAH 23,581,443.20;
- Amount of severance pay – UAH 8,084,659.00.

Total amount of compensation and reimbursements under the incentive program was UAH 6,142,196.37, of which:

- Per diem on business trips – UAH 40,500.00;
- Other business trip expenses – UAH 2,374,703.33;
- Training expenses – UAH 80,520.85;
- Representation costs – UAH 1,459,363.53;
- Medical insurance costs – UAH 440,444.52;
- Car rental compensation – UAH 894,817.20;
- Expenses related to refueling a motor vehicle with fuel and lubricants, car washing, maintenance, repair and parking services – UAH 851,846.94.

The actual amounts of remuneration were paid without deviations from the approved amounts and on time in accordance with the terms of the legislation, labor agreements, and the Regulation on Remuneration to Members of the Management Board of JSC "FUIB".

The full report on remuneration to members of the Bank's Management Board for 2023 is freely available on the Bank's official website at: https://about.pumb.ua/management/head.

13) Key provisions of the Bank's disclosure policies.

The Bank applies the Policy on Disclosure of Information by JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" as an issuer of securities, as approved by the Bank's Board on 14 December 2023 (Minutes No. 416). The policy is freely available on the Bank's official website at: https://about.pumb.ua/management/regulated-information-issuer.

The Policy defines the main goals and principles of information disclosure, rules and approaches to information disclosure, a list of disclosed information, establishes the procedure, methods, and terms of information disclosure, the procedure for providing access to information and documents, and other issues of information disclosure.

The Bank disclosed in a timely manner, publishes reliable financial statements and other significant and complete information about its activities as an issuer of securities, in accordance with the requirements of the legislation of Ukraine.

The information disclosed in accordance with this Policy is available to stakeholders within the time limits established by law.

The Bank, as an issuer of securities, discloses all required information by publishing it on the Bank's official website at: https://www.pumb.ua/.

The Policy has been developed with the aim of ensuring effective information interaction between the Bank, shareholders, investors, and other stakeholders in order to provide those persons with the opportunity to exercise the right to receive information that is essential when they make investment and management decisions.

The Bank, as an issuer of securities, discloses information in compliance with the following basic principles:

- Timeliness – ensuring the disclosure of information in compliance with the terms of providing information stipulated by the legislation and the Bank's internal regulations;
- Efficiency – ensuring that shareholders, investors, and other stakeholders are informed in the shortest possible time about the most significant events and facts that may affect the Bank's activities;
- Regularity – regular and systematic provision of information about significant events and facts of the Bank to shareholders, investors, and other stakeholders within the time limits specified by the legislation of Ukraine;
- Reliability – providing shareholders, investors, and other stakeholders with the information that corresponds to reality, as well as ensuring control that the information disseminated is not distorted, or is not erroneous on the matters of interest for making investment and management decisions;

- Completeness – providing the information sufficient to form the most complete picture of the current state of the Bank’s affairs. The information disclosed should be clear and consistent, and the data should be comparable with the information disclosed over different periods of time;
- Accessibility – ensuring the possibility of free and unburdened obtaining of information within the framework of the legislation of Ukraine. Access to open (public) information is provided by the Bank on a free basis and does not require special procedures (obtaining passwords, registration, or other technical restrictions) for viewing it;
- Neutrality – creating by the Bank of conditions that make it impossible for any of the shareholders, investors, or other stakeholders to preemptively obtain information about the Bank’s activities;
- Consistency – ensuring the disclosure of information that does not conflict with previously published information;
- Equality – ensuring equal rights and opportunities in obtaining information for all stakeholders, except for the cases provided for by law;
- Balance – observing by the Bank of a reasonable balance between the Bank’s openness and compliance with the confidentiality regime regarding information that constitutes banking and commercial secrets.

14) Information about an advisor.

The Bank has no advisor.