JOINT-STOCK COMPANY

“PRAVEX BANK”

Financial statements as at 31 December 2020 and for the year then ended

Contents

(in thousands of Ukrainian hryvnias)

Item	Notes	31/12/2020	31/12/2019
1	2	3	4
ASSETS			
Cash and cash equivalents	6	1,005,572	787,608
Loans and advances to banks	7	282,849	377,325
Loans and advances to customers	8	3,098,315	1,435,797
Investments in securities	9	2,794,875	2,661,675
Investment property	10	32,872	19,380
Current income tax receivable		542	1,141
Property, plant and equipment and intangible assets	11	371,211	333,497
Right-of-use assets	12	46,372	52,828
Other financial assets	13	12,918	26,065
Other non-financial assets	14	19,817	28,053
Non-current assets held for sale and disposal groups	15	-	41,264
Total assets		**7,665,343**	**5,764,633**
LIABILITIES			
Due to banks	16	300,214	214
Due to customers	17	5,427,926	3,638,304
Debt securities issued by the Bank	18	1	3,583
Deferred income tax liabilities	29	5,247	-
Provisions for liabilities	19	17,874	11,510
Other financial liabilities	20	139,590	163,768
Other non-financial liabilities	21	54,793	52,217
Total liabilities		**5,945,645**	**3,869,596**
EQUITY			
Share capital	22	1,048,726,	1,048,726
Share premium	22	4,600,754	4,600,754
(Accumulated deficit)		(4,142,030)	(3,966,523)
Reserves and other funds		1,332	1,332
Revaluation reserves	23	210,916	210,748
Total equity		**1,719,698**	**1,895,037**
Total liabilities and equity		**7,665,343**	**5,764,633**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" — **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" — **L.V. Ostakhova**

DATE: **17 March 2021**

Акціонерне товариство "ПРАВЕКС БАНК" Ідентифікаційний код 14360920 Україна м.Київ

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2020**	**31/12/2019**
1	2	3	4
Interest income	25	455,466	545,785
Interest expenses	25	(153,115)	(151,905)
Net interest income		**302,351**	**393,880**
Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks	7, 8	(9,300)	19,505
Net interest income after provisions for impairment of loans and advances to customers, and due from banks		**293,051**	**413,385**
Fee and commission income	26	150,381	150,276
Fee and commission expenses	26	(50,971)	(64,286)
Net profit from transactions with debt financial instruments carried at FVTOCI		-	42
Net profit from foreign exchange		(21,876)	22,697
Net (loss) arising from foreign currency translation		36,607	(7,572)
Net (loss) from investment property revaluation		975	(2,680)
Gains from initial recognition of financial assets at interest rates higher or lower than market rates		(2,618)	3
Gains from initial recognition of financial liabilities at interest rates higher or lower than market rates		23	-
Net (increase) in provisions for impairment of other financial and non-financial assets	13, 14	123	(542)
Gains from derecognition of financial assets		-	13,373
Gains from derecognition of financial liabilities		77	19
Net (loss) from (increase) in provisions for liabilities	19	(4,681)	(13,984)
Other operating income	27	37,835	47,215
Employee benefits expense		(264,264)	(265,017)
Depreciation and amortisation		(56,942)	(111,678)
Amortisation of right-of-use assets	12	(25,656)	(24,645)
Other administrative and operating expenses	28	(274,867)	(279,405)
Loss before tax		**(182,803)**	**(122,799)**
Income tax benefits	29	-	1,297
Loss from continuing operations		**(182,803)**	**(121,502)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in gains arising from revaluation of property, plant and equipment	23	19,941	8,491
Changes in gains less losses arising from revaluation of transactions with shareholders	23	239	446
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	23	(6,096)	(448)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			
Changes in results arising from revaluation of investments in securities carried at FVTOCI	23	(7,469)	4,716

(in thousands of Ukrainian hryvnias)

Item	Notes	31/12/2020	31/12/2019
1	2	3	4
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	23	849	(849)
Other comprehensive income after tax		**7,464**	12,356
Total comprehensive loss for the period		**(175,339)**	**(109,146)**
Loss attributable to shareholders		**(182,803)**	(121,502)
Total comprehensive loss attributable to shareholders		**(175,339)**	**(109,146)**
Loss per share from continuing operations:			
Basic loss per ordinary share	30	(0.11)	(0.07)
Diluted loss per ordinary share	30	(0.11)	(0.07)
Loss per share attributable to shareholders:			
Basic loss per ordinary share for the period (UAH)	30	(0.11)	(0.07)
Diluted loss per ordinary share for the period (UAH)	30	(0.11)	(0.07)

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

DATE: 17 March 2021

Акціонерне товариство "ПРАВЕКС БАНК" Ідентифікаційний код 14360920 Україна м.Київ

(in thousands of Ukrainian hryvnias)

Item	Notes	31/12/2020	31/12/2019
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		490,889	383,943
Interest expenses paid		(146,093)	(149,938)
Fee income received		150,084	150,016
Fee and commission expenses paid		(50,981)	(64,297)
Results of foreign currency transactions		(21,876)	22,697
Other operating income received		27,664	27,272
Personnel costs		(278,108)	(250,444)
Other administrative and operating expenses, paid		(273,101)	(295,245)
Cash used in operating activities before changes in operating assets and liabilities		**(101,522)**	**(175,996)**
Net decrease/(increase) in loans and advances to banks		149,427	(284,244)
Net (increase) in loans and advances to customers		(1,566,192)	(115,622)
Net decrease in other financial assets		24,841	8,936
Net increase/(decrease) in amounts due to banks		-	29
Net increase/(decrease) in amounts due to customers		1,451,569	1,291,313
Net (decrease) in debt securities issued by the Bank		(3,618)	(1,335)
Net increase/(decrease) in other financial liabilities		274,480	42,080
Net cash flows from operating activities		**228,985**	**765,161**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities		(149,903,471)	(118,945,801)
Result from transactions with debt financial instruments carried at FVTOCI		-	42
Proceeds from the sale of investments in securities		149,735,001	118,157,967
Acquisition of property, plant and equipment		(19,733)	(8,844)
Proceeds from the sale of investment property		28,565	39,637
Result from disposal of property, plant and equipment and intangible assets		10,213	68,517
Acquisition of intangible assets		(60,844)	(35,478)

			(in thousands of Ukrainian hryvnias)
Item	**Notes**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
Net cash from investing activities		**(210,269)**	**(723,960)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in cash and cash equivalents		**18,716**	41,201
Effect of the NBU exchange rate fluctuations on cash and cash equivalents		**199,248**	(76,806)
Cash and cash equivalents at the beginning of the period	6	**787,608**	**823,213**
Cash and cash equivalents at the end of the period	6	**1,005,572**	**787,608**

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

DATE: 17 March 2021

(in thousands of Ukrainian hryvnias)

Item	**Notes**	**Attributable to shareholders**						**Total equity**
		share capital	**share premium and other additional capital**	**reserves and other funds**	**revaluation reserves**	**retained earnings**	**total**	
1	2	3	4	5	6	7	8	9
Balance as at 1 January 2019	22	1,048,726	4,600,754	1,332	251,409	(3,898,038)	2,004,183	2,004,183
Total comprehensive income		-	-	-	(40,661)	(68,485)	(109,146)	(109,146)
(loss) for 31 December 2019		-	-	-		(121,502)	(121,502)	(121,502)
other comprehensive income		-	-	-	(40,661)	53,017	12,356	12,356
Amortisation of property, plant and equipment revaluation reserve or realised revaluation surplus/deficit	23	-	-	-	(44,578)	52,632	8,054	8,054
Amortisation of securities revaluation reserve	23	-	-	-	3,867	385	4,252	4,252
Transactions with shareholders	23	-	-	-	50	-	50	50
Closing balance as at 31 December 2019 (balance as at 1 January 2020)	22	1,048,726	4,600,754	1,332	210,748	(3,966,523)	1,895,037	1,895,037
Total comprehensive income		-	-	-	168	(175,507)	(175,339)	(175339)
(Loss) for 2020		-	-	-		(182,803)	(182,803)	(182,803)
other comprehensive income		-	-	-	168	7,296	7,464	7,464
Amortisation of property, plant and equipment revaluation reserve or realised revaluation surplus/deficit	23	-	-	-	6,766	7,084	13,850	13,850
Amortisation of securities revaluation reserve	23	-	-	-	(6,620)	-	(6,620)	(6,620)
Transactions with shareholders	23	-	-	-	22	212	234	234

(in thousands of Ukrainian hryvnias)

Item	Notes	Attributable to shareholders						Total equity
		share capital	share premium and other additional capital	reserves and other funds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8	9
Closing balance as at 31 December 2020 ((balance as at 1 January 2021)		1,048,726	4,600,754	1,332	210,916	(4,142,030)	1,719,698	1,719,698

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **I.V. Ostakhova**

DATE: 17 March 2021

Note 1. Information about the Bank

Full name of the Bank	Joint-Stock Company "PRAVEX BANK"
Short name of the Bank	JSC "PRAVEX BANK"
Location	9/2 Klovskyi Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of incorporation	Private Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. 10121 Italy, Turin, Piazza San Carlo, 156
Management shareholding	0%
Foreign investor shareholding	INTESA SANPAOLO S.p.A. (Italy) owns 100% of the Bank's share capital
Reporting period	From 1 January to 31 December 2020
Reporting currency and measurement unit	UAH '000

The strategic business and development goal of JSC "PRAVEX BANK" (hereinafter – "the Bank") is to create a universal bank providing a full range of bank services to legal entities and individuals.

The Bank operated in the unpredictable development of the macroeconomic scenario against the background of the global turmoil in international markets caused by the coronavirus outbreak, the growth of the hryvnia devaluation, changes in the country's executive branch, restrained implementation of systemically important reforms, including judicial reform and protection of rights. creditors, the frozen conflict in eastern Ukraine, which directly affected its financial results as of December 31, 2020.

Considering all the above factors, starting from March, the Bank was forced to make efforts to maintain the status of a reliable and solvent bank, and took the following measures:

- focused on liquidity management;
- monitor the outflow of customers' funds;
- changed the work schedule of branches;
- transferred employees to work from home with remote access to ensure continuous operations and at the same time protect employees from infection;
- developed a debt restructuring program for clients and its further active implementetion;
- performed actions towards improvement and transfer of banking services to on-line customer service;
- actively worked towards digitalization;
- performed actions to reduce operating and administrative costs

However, despite the aggravation of the situation with the coronavirus and the introduction of strict quarantine restrictions, the Bank continued to work actively in the following areas:

- granted loans to legal entities, focusing on customers who have a stable financial position and a high reputation in the market, as well as needed working capital during the pandemic;
- provided retail lending with strict credit risk control;
- invested available funds in NBU deposit certificates and domestic government loan bonds issued by the Ministry of Finance of Ukraine to avoid liquidity risks and ensure risk-free interest income;
- invested available funds in foreign currency in interbank loans and within swap agreements;
- the bank signed an agreement with the EIB to obtain a credit line to finance the development of small and medium-sized businesses;

- improved and updated its banking products in accordance with the needs of customers and the market;
- revised tariffs for some banking products;
- took active steps to reduce overdue loans through further debt restructuring;
- continued work aimed at realisation/sale of collateral;
- exercised rigorous control over operational expenses and capital investments.

Note 2. Economic environment of the Bank

The Bank operates in Ukraine. The political and economic situation in Ukraine has been unstable in recent years, with the peculiarities of a developing market.

During the first months of 2020, there was a significant shock to the world market caused by an outbreak of coronavirus. However, as early as the end of the 2nd quarter, most countries around the world began easing quarantine restrictions, despite the fact that the situation began to deteriorate again in the 3rd quarter. Already in December, despite the deterioration of COVID-19 and the introduction of lockdown in most countries, the situation in global commodity and financial markets improved, due to a gradual increase in demand amid positive news about successful trials of COVID-19 vaccines and the beginning of vaccination in some countries. This directly supported rising prices, particularly for oil and natural gas. Steel and iron ore prices have risen due to increased demand in the context of limited steel reserves and reduced ore supplies from Brazil. Growing demand, deteriorating forecasts of expected yields in Latin America and the introduction of export restrictions in some countries have led to higher grain prices. At the same time, the completion of the election process in the United States led to a rapid increase in the interest of foreign investors in risky assets of developing countries, so most currencies strengthened against the US dollar.

In turn, in order to protect the population of Ukraine from the potential serious threat of coronavirus, the Government from August 1 divided all regions of Ukraine into several zones: green, yellow, orange and red according to the level of epidemic danger of COVID-19. Depending on the degree of the epidemiological situation, quarantine restrictions were introduced. To date, most businesses and organizations have instructed employees to stay home and reduce or suspend business operations. The broader economic implications of these events include:

- undermining business and economic activities in Ukraine that affect supply chains, including trade and transport, travel and tourism, entertainment, manufacturing, construction, retail, insurance and education;
- growth of economic uncertainty, reflected in more volatile asset prices and exchange rates.

The National Bank of Ukraine also took additional measures in response to these events. Banks were recommended to adjust the schedule and carry out additional sanitary measures in all branches to ensure compliance with the requirements of the Ministry of Health of Ukraine.

Also, the NBU requires banks to suspend the obligation to fulfill the main obligation, the fulfillment of which is secured by a mortgage, and to prevent foreclosure on the subject of the mortgage for the period of quarantine. The NBU has prohibited the accrual and collection of penalties (fines, penalties) for late payments for housing and communal services, consumer loans and raising interest rates or any other mandatory payments on consumer loans during the quarantine period.

In order to preserve the financial stability of the NBU:

- Changed the operational design of monetary policy;
- Introduced long-term refinancing of banks;
- Supported banks with cash in foreign currency;
- Postponed the accrual of capital buffers for banks;
- Postponed the submission of the Business Plan for 2020-2023 within the SREP analysis;

- Proposed to banks to introduce a special grace period for servicing loans during the quarantine period for individuals and businesses (credit holidays).

The banking sector has been significantly affected by the introduction of quarantine restrictions related to COVID-19. Since the beginning of the year, the volume of retail deposits, both in hryvnia and in foreign currency, has been growing fast. However, since mid-March, there has been an outflow of funds due to the negative expectations of the population and business, which was covered by sufficient liquidity in the banking sector. However, already in the third quarter, the positive dynamics of the main indicators of banks' activity began to recover after the rapid unfolding of the crisis in the spring. The net loan portfolio grew in the corporate and retail segments. For the first time in many years, mortgages grew faster than consumer loans. At the same time, banks performed active work to clear their balance sheets of bad debts, so the share of non-performing loans decreased by 6.4% since the beginning of the year (from 48.4% to 42.0%). The increase in the banks' deposit portfolio, which was mainly due to the inflow of demand deposits, as well as the resumption of demand for hryvnia domestic government loan bonds from non-residents, ensured a significant increase in investments in government securities. The net profit of the system for November amounted to 43 billion. UAH and decreased by 27% compared to last year, but growth in interest and commission income resumed. The main factor in the decline in profits was the provision for loans which increased by 192% compared to last year, caused by the deterioration of the borrowers' solvency due to the pandemic.
The NBU has been actively reducing the rate from the beginning of the year to the historically minimum level of 6% (in December 2019 it was at the level of 13.5%). In November, banks continue to reduce hryvnia rates for their customers on lending and deposit operations under the influence of the general trend of cheaper resources. However, domestic government loan bonds profitability increased due to the significant needs of the Government in financing the budget deficit.
During the year the National Bank smoothed excessive exchange rate fluctuations and made interventions of foreign currency sale in the interbank foreign exchange market caused by increased demand for the currency due to deteriorating expectations in the Ukrainian market due to the coronavirus outbreak. This made it possible to alleviate the excitement caused by psychological rather than economic factors.
The International Monetary Fund has reached an agreement with the Ukrainian government on a new three-year Extended Fund Facility (EFF) financing for 4 billion Special Drawing Rights (SDRs) - about $ 5.5 billion. In June, Ukraine received the first tranche of $ 2.1 billion, which was used to overcome the effects of the coronavirus pandemic, as well as to ensure macro-financial stability.
In early September, the international rating agency Fitch Ratings reaffirmed Ukraine's long-term foreign currency-issuer default ratings at "B" with a stable outlook. Ukraine's ratings reflect its credible macroeconomic policies, which have reduced inflation and narrowed the budget deficit to coronavirus shock, as well as a history of international support. However, Fitch has identified low external liquidity with high funding needs debt, vulnerable, albeit improved banking sector, and weak corporate governance.

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

These financial statements reflect the current assessment of management about the impact of operating conditions in Ukraine on the Bank's operating activities and financial condition. Future operating conditions may differ from management estimates.

Note 3. Basis for preparation

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – 'IFRS'), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and applicable regulations on the submission of annual reports by issuers and professional participants of the stock market to the National Securities and Stock Market Commission of Ukraine.

During the year ended 31 December 2020 and in preparing these financial statements, the Bank consistently applied significant accounting policies set out below.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimates are revised and in all future periods.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

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

The separate impact of the pandemic on the financial statements is disclosed in the relevant notes to these financial statements as at 31 December 2020 and for the year ended that date.

These financial statements as at 31 December 2020 have been prepared in accordance with the requirements of IAS 1 Presentation of Financial Statements.

Note 4. Accounting policies of JSC “PRAVEX BANK” for the year ended 31 December 2020

4.1. Basis of measurement

The Bank’s accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, business entity concept, prudence, going concern, accrual and matching, consistency (consistent application of accounting policies) and the single monetary unit.

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

4.2. Use of accounting estimates and assumptions

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

The management should make its subjective estimates regarding the following:

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

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

• financial assets that are debt instruments;

• accounts receivable;

• financial guarantee contracts issued;

• loan commitments issued.

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

• debt investment securities that are determined to have low credit risk at the reporting date; and

• other financial instruments for which credit risk has not increased significantly since initial recognition.

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

Exchange rates applied during the restatement of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a freely convertible currency outside Ukraine. Accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparing these financial statements, the management applied the NBU official exchange rate to recalculate the transactions and balances in foreign currencies. The NBU official exchange rates are derived from officially published sources. The management believes that the application of these rates substantially serves the comparability purposes.

4.3. Changes in accounting policies

The Decision of the Management Board of the bank No. 23_20.11.1 dated September 25, 2020 amended the Regulations on accounting policy, which are introduced for all non-current assets that are put into operation after May 22, 2020. Amendments to the provisions of accounting policy were made in connection with amendments to the Law of Ukraine of January 16, 2020 No. 466-IX “On Amendments to the Tax Code of Ukraine to improve tax administration, eliminate technical and logical inconsistencies in tax legislation” (hereinafter - the Law No 466), which provides for an increase in the cost threshold for the attribution of non-current assets to fixed assets, the expected useful life (operation) of which from the date of commissioning is more than one year (or operating cycle, if longer than one year).

The cost threshold for classifying non-current assets as property, plant and equipment has been increased from UAH 5,000 to UAH 20,000. This increase applies to new non-current assets that have not yet been commissioned. Therefore, the increased criterion will be applied to fixed assets put into operation after May 22, 2020. Fixed assets put into operation before May 23, 2020, continue to be depreciated, even if their residual book value does not exceed UAH 20,000.

The above legislation regulates the procedure for recognizing assets for tax purposes, which is currently separated from financial (accounting). However, given that the criteria for recognition of assets for tax and financial (accounting) purposes in economic terms may not differ, starting from May 23, 2020 in financial (accounting) fixed assets are recognized as non-current assets, the expected useful life (operation)) which from the date of commissioning is more than one year (or operating cycle, if it is longer than a year) and the cost of which exceeds UAH 20,000.

Criteria for recognizing non-current assets as fixed assets are defined in the Regulations on the accounting policy of JSC “PRAVEX BANK”, which was approved by the decision of the Management Board dated December 12, 2019 No.30_19.3. The above changes are applied prospectively, so they do not affect the indicators of the published financial statements, and do not necessitate the recalculation of certain items of financial statements.

Compared to the reporting published on December 31, 2019 and for the year ended on that date, no other changes were made to the Accounting Policy.

4.4. Initial recognition of financial instruments

A financial instrument represents any contract that gives rise to (increases) a financial asset of one entity and a financial liability or equity instrument of another entity.

The Bank recognises financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

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

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

Financial liabilities are not reclassified subsequent to their initial recognition.

4.5.1. Business model assessment

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

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

- the stated policies and objectives for the portfolio of the financial assets and the operation of these policies in practice, including whether the management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the maturities of the financial assets to the maturities of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

the frequency, volume and timing of sales in prior periods, reasons for such sales and expectations about future sales. However, information about sales is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

The Bank's financial liabilities include credit-related commitments, guarantees, suretyships, letters of credit, bills of acceptance and avals issued to banks and customers, and assets receivable. The Bank classifies and measures financial liabilities:

- at amortised cost;
- at fair value through profit or loss.

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

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of discount (premium) for the underlying financial instrument. The Bank amortises the amount of discount/premium during the life of a financial instrument (excluding financial instruments at FVTPL) using the effective interest method at least once a month. The amount of discount/premium must be fully amortised by the financial instrument maturity date.

4.5.2. Expected credit loss allowance

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

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

No allowance is recognised on equity investments.

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

12-month ECLs are the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments, for which 12-month ECLs are recognised, are referred to as Level 1 Financial Instruments.

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

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

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

4.5.3. Valuation of expected credit losses

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

- *financial assets that are not credit-impaired at the reporting date:* as a present value of all expected cash shortfalls (i.e. the difference between the cash flows that are due to the Bank under a contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the asset's gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as a present value of the difference between contractual cash flows due to the Bank under a contract, if the holder draws down the commitment, and the cash flows that the Bank expects to receive, if the loan is issued; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder for credit losses that it incurs less any amounts that the Bank expects to recover.

4.5.4 Credit risk grades

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

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

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

For financial assets that have become credit-impaired (recognised within grade 3) after initial recognition, the interest income is calculated by applying the effective interest rate to the amortised value of a financial asset. If a financial asset is no longer credit-impaired, the interest income is calculated based on the gross carrying amount.

Significant increase in credit risk

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

Firstly, the Bank identifies whether a significant increase in credit risk has occurred for an exposure based on the remaining lifetime probability of default of a financial instrument at the reporting date and the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The assessment of whether there has been a significant increase in credit risk since initial recognition of a financial instrument requires identification of the initial recognition date of the instrument. For some revolving credit facilities (such as credit cards and overdrafts), the contract date may be a long time ago. Changes in contractual terms of a financial instrument discussed below may also affect the assessment.

Significant increase in credit risk

The Bank develops a framework that incorporates both quantitative and qualitative information to determine if there is a significant increase in credit risk on a particular financial instrument since initial recognition. The framework aligns with the Bank’s internal credit risk management process. The criteria for determining a significant increase in credit risk vary by portfolio and include a ‘backstop’ based on delinquency.

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECLs measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

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

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

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

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

1) the bank transfers the rights to receive cash flows from the financial asset provided by the agreement;

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

- the bank has no obligation to pay amounts to final buyers until the receipt of equivalent amounts from the original asset;

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

- the bank is obliged to transfer any cash flows that it receives on behalf of the final recipients, without significant delay. In addition, the bank is not allowed to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in International Accounting Standard 7 "Statement of Cash Flows") for a short maturity from the date of collection to the date of their necessary transfer to the final recipients. Interest on such investments is transferred to the final recipients);

3) there was a write-off against provision.

Bad debts recognition procedure and their write-off against provision is determined by internal regulations.

Unless otherwise specified in the internal regulations the Bank recognises loan and other receivables as bad if they meet at least one or several of the following criteria:

- limitation period on the debt has expired, and no repayments of the debt have been made for a three-year period;
- overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;
- overdue debt of missing or deceased persons recognised as such by court decision;
- forgiven overdue debt of a retail borrower, unless such individual is the creditor’s associate, or if he or she is, or was employed by the creditor;
- overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower’s property, provided that enforcement measures in respect of the borrower’s property did not result in a full debt repayment;
- cancellation of the debt collection proceedings due to their inefficiency, i.e. when the Bank’s related legal expenses exceed the collectible amount;
- debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:

  - extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;
  - extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);
  - conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;
- debt of business entities that were recognised bankrupt or liquidated in a due course of the law;
- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of collateral;
- debt outstanding upon decision of the court not in the Bank's favour and/or decision of the Bank to abandon any further claims in respect of the debt;
- debt recognised fraudulent as a result of the line-of-duty investigation.

For the purposes of tax accounting, the debt is considered bad in accordance with the requirements of the Tax Code of Ukraine.

Bad debt is recognised and written off against the provision at the decision of the Management Board (in accordance with the powers defined by the Supervisory Board) or based on the decision of the Supervisory Board to write off the debt of debtors / counterparties - related to the bank in the amount exceeding one percent of the regulatory capital of the bank for the debtor / counterparty - an individual, three percent - for the debtor / counterparty - a legal entity.

Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law, if there are legal grounds to continue implementation of measures to repay such debts until full repayment or exhaustion of all statutory measures to repay debts.

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

Recognized provisions are accounted for on separate analytical accounts in terms of contracts and clients.

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amounts include the implementability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows.

Non-financial assets

Other non-financial assets, other than deferred taxes, are tested at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the higher of their fair value less costs to sell and value in use. In measuring the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

If the currency of the loan has been changed, the original loan is derecognised and the new loan is recognised.

If modification of a financial instrument other than measured at FVTPL does not result in a derecognition, the Bank recalculates the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognises any resulting adjustment as a modification gain or loss in profit or loss.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising the collateral (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due on the next day when the customer has breached an advised limit or been advised of a smaller limit than the current amount outstanding.

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

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

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

Generating the term structure of the probability of default

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

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

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

4.6. Derecognition of financial instruments

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

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

4.7. Modifications

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

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

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

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

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

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

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

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

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

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

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

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

4.8. Cash and cash equivalents

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

4.9. Loans and advances to customers

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

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

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

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

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

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

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

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

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

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

Subsequent to the initial recognition, financial assets are carried at fair value. Income and loss from the change in fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or when a loss is recognised, accumulated gain or loss is reversed through the statement of profit or loss and other comprehensive income. For determination of the fair value of financial instruments quoted in an active market, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and financial derivatives that have equity instrument as an underlying asset whose fair value cannot be determined reliably are recognised at cost. Financial assets available for sale are tested for any indication of impairment. If any such indication exists, the loss is determined as a difference between the carrying amount of an asset and its fair value. If indications of impairment no longer exist after the event that occurred after the recognition of impairment, loans and debt securities are reversed through the statement of profit or loss and other comprehensive income, and equity instruments are reversed through other comprehensive income. The reversal shall be recognised only to the extent that the carrying amount of the financial asset does not exceed its amortised cost had no impairment losses been recognised in the prior periods.

4.11. Investments in securities at amortised cost

Recognised only if both of the following conditions are met:

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

4.12. Financial instruments at fair value through profit or loss

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

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

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

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

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

4.13. Property, plant and equipment

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

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

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

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

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

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

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

As at 31 December 2020, the appraisal of properties was carried out by an independent appraiser Limited Liability Company "EXPANDIA". As at the appraisal, LLC "EXPANDIA" held the appraiser's certificate required by the applicable legislation of Ukraine and had previous experience of appraising similar properties.

Fair value of investment property items was determined to be equal to the market value, net of value added tax. The market value was calculated by the comparative approach (method of adjusting value to similar properties) and income approach.

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

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

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

Useful lives and applicable depreciation rates are reviewed at each year-end. The below table presents useful lives of certain categories of property, plant and equipment for 2020:

Description	Useful life, years
Buildings and constructions	33.33
Machinery and equipment	4-15
Vehicles	10
Fixtures and fittings (furniture)	2-10
Other PP&E	12

Property, plant and equipment is depreciated on a straight-line basis. In 2020, ended on 31 December 2020, there were no changes in the depreciation method and useful lives of property, plant and equipment.

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

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

Depreciation is discontinued on the earlier of:

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

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

4.14. Intangible assets

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

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

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

Amortisation is charged on a straight-line basis. During 2020, ended on 31 December 2020, the Bank made no changes to the amortisation method and useful lives of intangible assets. Useful lives and amortisation rates of intangible assets are revised at each year-end and when such revisions are supported by relevant feasibility studies.

Useful lives of intangible assets are specified below:

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

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

4.15. Leases

The Bank accounts for leases in accordance with IFRS 16 Leases and the NBU Regulation No. 480 dated 25 December 2005.

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

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

The Bank does not recognise leases. Instead, it recognises the recognition exemption to account for:

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

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

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

Software licence and other licensing agreements are not recognised as leases. The Bank recognises these assets as intangible assets according to IAS 38 Intangible Assets.

If a lease arrangement is recognised as a lease, at the commencement date, the Bank recognises:
- right-of-use assets;
- lease liabilities.

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

Initial direct costs include expenses that the Bank incurred from:
- sales commissions,
- notary services,
- advisory services,
- collateral,
- lessor's consideration;
- other costs.

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

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

If the interest rate cannot be determined from conditions of a lease, the discount rates for the Bank are set by the parent company.

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

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

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

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

The lease term is assessed at the commencement date by the Bank's structural units responsible for managing assets and/or initiating lease arrangements.

The Bank revises the lease term if there is a change in the non-cancellable period of a lease.

Right-of-use assets are initially recognised at cost.

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

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

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

Lease modification

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

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

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

- for the carrying amount of an asset, if:
  - there is a change in the lease term;
  - there is a recognition of an option/change in cost/termination of the lease;
  - there is a change in estimates of residual value guarantees;
  - there is a change in the amount of variable lease payments that depend on an index and are attributable to future periods.
- for the gain or loss if:
  - there is a change in the amount of variable lease payments that depend on an index and are attributable to the current month;

- there is a change in the amount of variable lease payments that do not depend on an index and are attributable to the current month.

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

4.16. Investment property

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

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

As at 31 October 2020, the appraisal of investment properties was carried out by an independent appraiser Limited Liability Company "EXPANDIA". As at the appraisal, LLC "EXPANDIA" held the appraiser's certificate required by the applicable legislation of Ukraine and had previous experience of appraising similar properties.

4.17. Non-current assets held for sale

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

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

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

Non-current assets held for sale are not depreciated.

4.18. Financial derivatives

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

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

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

(c) it is settled at a future date.

Derivative financial instruments include forwards, futures, options and swaps.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised as expenses at the time of initial recognition. Transaction costs do not include any premiums or discounts on forward contracts or options.

At every balance sheet date after the initial recognition, financial derivatives are carried at fair value less any transaction costs.

Exchange-traded financial derivatives are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (estimated) prices.

Derivatives, which are OTC instruments, are revalued by the Bank if their fair value changes.

Revaluation of forward contracts and the forward part of swap contracts is performed at the forward rate monthly on the last working day of the month and on the settlement date (repayment) of the forward contract at the NBU rate.

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

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

Where the quoted market prices of financial derivatives are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;
- analysis of discounted cash flows;
- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.19. Borrowings

The Bank mostly designates its own bonds to the borrowings category The Bank may realise self-issued bonds at a nominal value with a discount or premium.

The Bank accrues interest and amortises the discounts (premiums) on self-issued bonds subject to the terms and conditions of their issue at least once a month over the period from the placement date and until the redemption date.

The amortisation of discount (premium) for the reporting period is determined using the effective interest method. The amortisation of discount/premium on transactions with self-issued debt securities results in higher/lower interest expenses.

The Bank can redeem self-issued bonds both on and prior to their maturities (if such an option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortises respective part of the discount (premium) through the date of redemption.

4.20. Provisions for liabilities

The Bank recognises provisions for liabilities and contingent liabilities.

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

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

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

4.21. Employee benefits

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

The Bank recognises provisions for unused vacations.

4.22. Income tax

The Bank recognises its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the applicable tax law of Ukraine. As at 31 December 2020 and 31 December 2019, the income tax was 18%:

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

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

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

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

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

When determining the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realised in the years after the balance sheet date, the Bank analyses the degree of probability of such realisation. In case the expected taxable profit does not fully offset respective taxable temporary differences, the realisation of which was expected in the period, the Bank recognises impairment of the deferred tax asset.

The recognised impairment loss is recognised in the statement of profit or loss and other comprehensive income under the caption "Income tax".

Taxable profit expected in the future period is calculated by reference to the business plan prepared by the management and the available tax planning options.

4.23. Share capital and share premium

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

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

4.24. Recognition of income and expenses

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

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

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

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

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

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

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

Any differences arising between the interest income/expense determined by using the effective interest method and the interest income/expense accrued at the nominal interest rate on the financial instruments acquired or issued at the nominal value (i.e., bearing no discount or premium) are recognised as non-amortised discounts or premiums within interest income and expenses.

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

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

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

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

- interest income and interest expense on financial assets and financial liabilities measured at fair value calculated using the effective interest method;
- interest income on debt instruments measured at FVTOCI calculated using the effective interest method;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of the variability in interest cash flows in the same period as the hedged cash flows affect the interest income/expense.

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

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

4.25. Foreign currencies

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

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

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December 2020, the exchange rates of UAH established by the NBU were as follows:

Currency	31 December 2020	31 December 2019
USD	28.27	23.69
EUR	34.74	26.42

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

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

4.26. Offsetting

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

4.27. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant effect on the measurements of assets and liabilities.

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

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

The valuation techniques include:

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

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

Level 1 inputs:

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

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

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

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

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

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

Level 2 inputs:

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

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

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

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

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

(ii) implied volatilities; and

(iii) credit spreads.

(d) market-corroborated inputs.

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

(a) the condition or location of the asset;

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

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

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

Level 3 inputs:

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

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

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule, other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

- Market approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.

- Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount that reflects current market expectations about those future amounts.
- Cost approach: reflects the amount required currently to replace the service capacity of an asset (often referred to as current replacement cost, which differs from the costs incurred).

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

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

(a) new markets develop;

(b) new information becomes available;

(c) information previously used is no longer available;

(d) valuation techniques improve;

(e) market conditions change.

The Bank has formalised the Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value and assigns the overall responsibility for measuring fair value to the Risk Management Department that is independent from operational function.

As at 31 December 2020, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of 2020 by applying the comparable sales method or income capitalisation method to property and the cost approach to certain infrastructure objects or specialised property with limited market information.

4.28. Operating segment information

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

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

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

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

Note 5. New and revised standards

Two new standards become effective for annual periods beginning on or after 1 January 2019, early application is permitted. In preparing these financial statements, the Bank adopted new and revised standards early.

Amendments to References to the Conceptual Framework in IFRS Standards

Definition of a Business (Amendments to IFRS 3).

IFRS 17 Insurance Contracts.

Definition of Material (Amendments to IAS 1 and IAS 8).

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – designed to facilitate an understanding of the definition of material in IAS 1 and is not intended to alter the underlying concept of materiality in IFRS. The definition of material in IAS 8 was superseded by a reference to IAS 1. Effective for annual period beginning on or after 1 January 2020, early application is permitted.

IFRS 17 Insurance Contracts – a new financial reporting standard for insurance contracts that addresses recognition, measurement, presentation and disclosure. Effective for annual periods beginning on or after 1 January 2021, early application is permitted.

Definition of a Business (Amendments to IFRS 3).

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	**2**	**3**	**4**
1	Cash	320,247	415,468
2	Provision for cash balances located in temporarily occupied territories	(1,497)	(1,431)
3	Balances with the National Bank of Ukraine	78,213	86,282
4	**Correspondent accounts with:**	**608,652**	287,317
4.1.	domestic banks	3,408	1,850
4.2.	foreign banks	605,244	285,467
5	Provisions for cash on correspondent accounts with other banks	(43)	(28)
6	**Total cash and cash equivalents**	**1,005,572**	**787,608**

Line 6 in Table 6.1 corresponds to account "Cash and cash equivalents" in the statement of financial position.

As at 31 December 2020, the Bank placed cash on a correspondent account with JPMORGAN CHASE BANK, N.A. in the amount of UAH 263 622 thousand (2019: Deutsche Bank AG in the amount of UAH 95,208 thousand), which represents a significant concentration.

As at 31 December 2020 and 31 December 2019, balances on correspondent accounts were not overdue.

Table 6.2. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Provisions for cash on correspondent accounts with other banks	Total
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(28)	(28)

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

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2020 (UAH 13,219 thousand) and during 2019 (UAH 9,717 thousand).

Table 6.3. Movements in provisions for cash on correspondent accounts with other banks as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(12)	(12)
3	(Increase) in provision for impairment during the year	(18)	(18)
4	Foreign exchange differences	2	2
5	**Balance at the end of the period**	**(28)**	**(28)**

Table 6.4. Credit quality analysis of cash and cash equivalents as at 31 December 2020

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

Table 6.5. Credit quality analysis of cash and cash equivalents as at 31 December 2019

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Cash**	**Balances with the National Bank of Ukraine**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Impairment Stage 1:	287,317	414,037	86,282	787,636
1.1.	Not overdue	287,317	414,037	86,282	787,636
2	Impairment Stage 3:	-	1,431	-	1,431
2.2	More than 90 days	-	1,431	-	1,431
3	Provision for cash impairment	(28)	(1,431)	-	(1,459)
4	**Total cash and cash equivalents**	**287,289**	**414,037**	**86,282**	**787,608**

Note 7. Loans and advances to banks

Table 7.1. Loans and advances to banks

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Loans to other banks:	282,864	377,447
1.1	Short-term loans	282,864	377,447
2	Provision for impairment of amounts due from banks	(15)	(122)
3	**Total amounts due from other banks less provisions**	**282,849**	**377,325**

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

Line 1 “Loans to other banks” includes accrued income in the amount of UAH 44 thousand (2019: UAH - 245 thousand). As at 31 December 2020, loans to other banks amounted to UAH 282,864 thousand (as at 31 December 2019 – UAH 377,447 thousand), which represents a significant concentration.

Table 7.2. Movements in provisions for impairment of loans and advances to banks as at 31 December 2020 and for the year then year ended

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(122)	(122)
2	(Increase) in provision for impairment during the year	109	109
3	Foreign exchange differences	(2)	(2)
4	**Balance at the end of the period**	**(15)**	**(15)**

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account “Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks” in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account “Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2020 (UAH 13,219 thousand) and during 2019 (UAH 9,717 thousand).

Table 7.3. Movements in provisions for impairment of loans and advances to banks as at 31 December 2019 and for the year then year ended

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Provisions for cash on correspondent accounts with other banks**	**Total**
1	**2**	**3**	**4**
1	Balance at the beginning of the year	(5)	(5)
2	(Increase) in provision for impairment during the year	(118)	(118)
3	Foreign exchange differences	1	1
4	**Balance at the end of the period**	**(122)**	**(122)**

Table 7.4. Credit quality analysis of cash and cash equivalents as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1:	**282,864**	**282,864**
1.1	Not overdue	**282,864**	**282,864**
2	Provision for cash impairment	**(15)**	**(15)**
3	**Total cash and cash equivalents**	**282,849**	**282,849**

Table 7.5. Credit quality analysis of cash and cash equivalents as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Balances on correspondent accounts with other banks by impairment stage**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1:	**377,447**	**377,447**
1.1	Not overdue	**377,447**	**377,447**
2	Provision for cash impairment	**(122)**	**(122)**
3	**Total cash and cash equivalents**	**377,325**	**377,325**

Note 8. Loans and advances to customers

Table 8.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Corporate loans	2,360,871	1,095,892
2	Retail mortgage loans	297,919	89,348
3	Retail consumer loans	485,030	267,789
4	Other retail loans	145	24
5	Provision for impairment of loans	(45,650)	(17,256)
6	**Total loans less provisions**	**3,098,315**	**1,435,797**

Line 6 in Table 8.1 corresponds to account "Loans and advances to customers" in the statement of financial position.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2020 would be UAH 30,983 thousand lower/higher (31 December 2019: UAH 14,358 thousand).

Due to the spread of the coronavirus pandemic, at the request of individual customers affected by the economic consequences of quarantine and restrictive measures, the bank reviewed the maturities of loans and accrued interest. As of the end of the year, the carrying amount of loan agreements under which the terms were revised is UAH 15,596 thousand. Recognized losses from the modification of such financial assets amounted to UAH 1,144 thousand. Recognized expenses from the modification of financial assets are specified in Item 12 of the Note 28.

The amount of the additional provision under such revised contracts amounted to UAH 303 thousand. Due to the deteriorating economic situation in general due to the introduction of restrictive measures on the spread of coronavirus, the bank revised the expected cash flows and changed the default indicators for all loans in the bank's portfolio. These expenses for provisioning purposes are determined under the item "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income.

Line 6 in Table 8.1 discloses information about loans recognised at amortised cost. No loans and advances to customers are measured through profit or loss.

Concentration of loans to customers

The Bank believes that potential concentration risk per customer may arise when at least 10% of net loan portfolio is attributable to a limited number of borrowers. As at 31 December 2020 and 31 December 2019, loans per customer account for 9% and 16%, respectively (UAH 300,371 thousand and UAH 234,630 thousand, respectively).

Table 8.2. Movements in provisions for impairment of loans as at 31 December 2020 and for the year then year ended

						(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance at the beginning of the year	(8,006)	(6,212)	(3,038)	-	(17,256)

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate loans	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**	**3**	**4**	**5**	**6**	**7**
2	Decrease in provision for impairment during the year	(18,720)	534	(4,436)	(1)	(22,623)
3	Bad debt write-offs against the provision	-	1,001	-	-	1,001
4	Recovery of loans written off against provisions in prior periods	-	(3,756)	-	-	(3,756)
5	Interest accrued on impaired loans	-	(239)	(14)	-	(253)
6	Foreign exchange differences	(1,937)	(822)	(4)	-	(2,763)
7	**Balance at the end of the period**	(28,663)	(9,494)	(7,492)	(1)	(45,650)

Balances on line 2 in Tables 6.2, 7.2 and 8.2 correspond to account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income. The difference between the amount shown in account "Net (increase)/decrease in provisions for impairment of loans and advances to customers, and due from banks" in the statement of profit or loss and other comprehensive income and the amounts in line 2 of Tables 6.2, 7.2 and 8.2 represents the bad debt written off against provision in prior reporting periods and repaid as at 31 December 2020 (UAH 13,219 thousand) and during 2019 (UAH 9,717 thousand).

Table 8.3. Movements in provisions for impairment of loans as at 31 December 2019 and for the year then year ended

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate loans	Retail mortgage loans	Retail consumer loans	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance at the beginning of the year	(45,006)	(6,338)	(4,571)	(55,915)
2	Decrease in provision for impairment during the year	1,343	7,059	1,522	9,924
3	Bad debt write-offs against the provision	-	403	12	415
4	Assignment of claim	33,501	-	-	33,501
5	Recovery of loans written off against provisions in prior periods	-	(7,601)	-	(7,601)
6	Interest accrued on impaired loans	(53)	(287)	(5)	(345)
7	Foreign exchange differences	2,209	552	4	2,765
8	**Balance at the end of the period**	**(8,006)**	**(6,212)**	**(3,038)**	**(17,256)**

Table 8.4. Loan structure by types of economic activity

					(in thousands of Ukrainian hryvnias)
Line	**Economic activity**	**31/12/2020**		**31/12/2019**	
1	**2**	**3**	**4**	**5**	**6**
1	Production and distribution of electricity, natural gas and water	-	-	39,140	2.69%
2	Transactions with real estate, leasing, engineering and servicing	334,718	10.65%	37,510	2.58%
3	Trade, repair of vehicles, household equipment and items of personal use	926,207	29.46%	399,396	27.49%
4	Agriculture, hunting, forestry	272,602	8.67%	168,676	11.61%
5	Processing industry	627,839	19.97%	451,170	31.05%
6	Retail	783,093	24.91%	357,161	24.58%
7	Other	199,504	6.34%	-	-
8	**Total loans and advances to customers less provisions**	**3,143,963**	**100.00%**	**1,453,053**	**100.00%**

Table 8.5. Information about loans by collateral type of as at 31 December 2020

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

Table 8.6. Information about loans by collateral type of as at 31 December 2019

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Unsecured loans**	**321,638**	**108**	**190,662**	**24**	**512,432**
2	**Loans secured by:**	**424,951**	**89,240**	**32,925**	**-**	**547,116**
2.1	cash	41,098	-	11,422	-	52,520
2.2	Real estate	383,853	89,240	21,503	-	494,596
2.2.1	residential mortgage	2,338	85,852	584	-	88,774
2.2.2	non-residential mortgage	381,515	-	20,919	-	402,434
2.2.3	Land	-	**3,388**	**-**	**-**	**3,388**
3	**Other assets**	**349,303**	**-**	**44,201**	**-**	**393,504**
3.1	equipment	87,869	-	-	-	87,869
3.2	goods in turnover	139,715	-	-	-	139,715
3.3	vehicles	121,719	-	44,201	-	165,920
4	**Total loans and advances to customers, gross of provision charges**	**1,095,892**	**89,348**	**267,788**	**24**	**1,453,052**

Table 8.7. Credit quality analysis as at 31 December 2020

(in thousands of Ukrainian hryvnias)						
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Impairment Stage 1:**	2 360 871	287 240	481 241	138	3 129 490
1.1.	Not overdue	2 360 871	285 607	473 546	138	3 120 162
1.2.	Less than 30 days	-	1 633	7 695	-	9 328
2	**Impairment Stage 2:**	-	1 008	2 171	7	3 186
2.1.	Not overdue	-	1 008	-	-	1 008
2.2.	Less than 30 days	-	-	658	-	658
2.3.	31 - 60 days	-	-	783	7	790
2.4.	61 - 90 days	-	-	730	-	730
3	**Impairment Stage 3:**	-	9 671	1 618	-	11 289
3.1.	Not overdue	-	1 357	188	-	1 545
3.2.	31 - 60 days	-	728	530	-	1 258
3.3.	61 - 90 days	-	528	-	-	528
3.4.	91 - 180 days	-	477	382	-	859
3.5.	181 - 270 days	-	1 087	317	-	1 404
3.6.	More than 270 days	-	5 494	201	-	5 695
4	**Total loans, gross of provision charges**	2 360 871	297 919	485 030	145	3 143 965
5	**Provision for loan impairment**	(28 663)	(9 494)	(7 492)	(1)	(45 650)
6	**Total loans less provisions**	2 332 208	288 425	477 538	144	3 098 315

Table 8.8. Credit quality analysis as at 31 December 2019

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**Corporate loans**	**Retail mortgage loans**	**Retail consumer loans**	**Other retail loans**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Impairment Stage 1:**	1,095,892	80,510	267,426	24	1,443,852
1.1.	Not overdue	1,095,892	78,227	265,458	24	1,439,601
1.2.	Less than 30 days	-	2,283	1,968	-	4,251
2	**Impairment Stage 2:**	-	3,076	-	-	3,076
2.1.	Not overdue	-	2,885	-	-	2,885
2.2.	Less than 30 days	-	191	-	-	191
3	**Impairment Stage 3:**	-	5,762	363	-	6,125
3.1.	Not overdue	-	125	49	-	174
3.2.	Less than 30 days	-	56	-	-	56
3.3	91 - 180 days	-	923	-	-	923
3.4.	181 - 270 days	-	681	54	-	735
3.5.	More than 270 days	-	3,977	260	-	4,237
4	**Total loans, gross of provision charges**	1,095,892	89,348	267,789	24	1,453,053
5	**Provision for loan impairment**	(8,006)	(6,212)	(3,038)	-	(17,256)
6	**Total loans less provisions**	1,087,888	83,135	264,750	24	1,435,797

As at 31 December 2020 and 31 December 2019, the majority of loans provided to corporate borrowers are short-term and are granted to borrowers with a minimal credit risk according to the Bank's assessment.

8.9. Credit exposure and financial effect of collateral value

Corporate loans
Corporate loans are subject to individual assessment and testing for impairment. The general creditworthiness of a corporate customer tends to be the most relevant indicator of the quality of the loan granted to it. Since a collateral provides additional security, the Bank generally requests corporate borrowers to provide it.
Based on the management's estimates, the expected credit loss allowance without collateral would be higher as at 31 December 2020 by UAH 13,698 thousand (31 December 2019: by UAH 2,369 thousand).

Retail loans
Based on the management's estimates, the expected credit loss allowance would be higher as at 31 December 2020 by UAH 3,248 thousand (31 December 2019: by UAH 1,119 thousand) for mortgage loans and as at 31 December 2020: by UAH 346 thousand (31 December 2019: by UAH 310 thousand) for other retail loans.
The mass valuation of collateral was performed for real estate (apartments, housing estate, non-residential premises, land plots) and movable property (vehicles) as at 1 July 2020. The valuation was performed by an independent certified appraiser.
The market value was determined based on results of the comparative methodological approach.

Note 9. Investments in securities

Table 9.1. Investments in securities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Debt securities at AC	**1,197,822**	**1,352,197**
1.1	certificates of deposit of the National Bank of Ukraine	1,197,822	1,352,197
2	Debt securities at FVTOCI	**1,600,391**	**1,309,475**
2.1	domestic government loan bonds	1,600,391	1,309,475
3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	34	34
4	Provision for impairment of securities	(31)	(31)
5	**Total investments in securities less provisions**	**2,798,216**	**2,661,675**

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

Table 9.2. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,197,822	**1,197,822**
1.1	Not overdue	1,197,822	**1,197,822**
2	Provision for impairment of securities	-	-
3	**Total investments in securities at AC**	**1,197,822**	**1,197,822**

Table 9.3. Credit quality of debt securities carried at fair value through other comprehensive income as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,600,391	1,600,391
1.1	Not overdue	1,600,391	1,600,391
2	Provision for impairment of securities	-	-
3	**Total investments in securities at FVTOCI**	**1,600,391**	**1,600,391**

Table 9.4. Credit quality analysis of debt securities carried at amortised cost as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,352,197	**1,352,197**
1.1	Not overdue	1,352,197	**1,352,197**
2	Provision for impairment of securities	-	-

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**NBU certificates of deposit**	**Total**
1	**2**	**3**	**4**
3	**Total investments in securities at AC**	**1,352,197**	**1,352,197**

Table 9.5. Credit quality of debt securities carried at fair value through other comprehensive income as at 31 December 2019.

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**Domestic government loan bonds**	**Total**
1	**2**	**3**	**4**
1	Impairment Stage 1	1,309,475	1,309,475
1.1	Not overdue	1,309,475	1,309,475
2	Provision for impairment of securities	-	-
3	**Total investments in securities at FVTOCI**	**1,309,475**	**1,309,475**

Table 9.6. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2020	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2020**	**(31)**	**(31)**

Table 9.7. Movements in provisions for impairment of securities carried at fair value through other comprehensive income as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)			
Line	**Movements in provisions**	**Corporate shares**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2019	(31)	(31)
2	Increase in provision for impairment during the year	-	-
3	**Balance as at 31 December 2019**	**(31)**	**(31)**

Table 9.8. Investments in shares and other securities carried at fair value through other comprehensive income

(in thousands of Ukrainian hryvnias)					
Line	**Name**	**Activity**	**Country of registration**	**Measured at cost (fair value cannot be reliably measured)**	
				31/12/2020	**31/12/2019**
1	**2**	**3**	**4**	**5**	**6**
1	CJSC Crimean Stock Exchange	Financial market management	Ukraine	11	11

(in thousands of Ukrainian hryvnias)

Line	Name	Activity	Country of registration	Measured at cost (fair value cannot be reliably measured)	
				31/12/2020	31/12/2019
1	2	3	4	5	6
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial market management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial market management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial market management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 10. Investment property

Table 10.1. Fair value of investment property

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	2	3	4
1	Fair value of investment property at the beginning of the period	19,380	93,293
2	Recovery of carrying amount from sale of investment property	(2,774)	(34,361)
3	Reclassified to non-current assets held for sale and disposal groups	14,441	(39,248)
4	Property foreclosed by the Bank	850	2,733
5	Losses from sale of investment property	-	(357)
6	(Decrease) in investment property value	975	(2,680)
7	**Fair value of investment property at the end of the period**	**32,872**	**19,380**

Line 7 in Table 10.1 corresponds to account “Investment property” in the statement of financial position.

Fair value of investment property items was determined to be equal to the market value, net of value added tax. The market value was determined using the comparative and income approach. Fair value of the transformer substation was calculated using the cost approach.

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

(in thousands of Ukrainian hryvnias)

Line	Income and expense	31/12/2020	31/12/2019
1	2	3	4
1	Gains from disposal of investment property	83	7,651

Note 11. Property, plant and equipment and intangible assets

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1	**Carrying amount as at 01 January 2019:**	**228**	**252,784**	**23,695**	**747**	**4,404**	**936**	**9,493**	**-**	**9,520**	**146,476**	**448,282**
1.1	**Historical (revalued) cost**	**228**	**256,819**	**171,792**	**10,630**	**9,636**	**2,074**	**19,483**	**8,996**	**9,520**	**421,818**	**910,996**
1.2	**Depreciation as at 1 January 2019**	**-**	**(4,035)**	**(148,098)**	**(9,883)**	**(5,232)**	**(1,138)**	**(9,990)**	**(8,996)**	**-**	**(275,342)**	**(462,713)**
2	Additions	-	-	-	-	-	-	-	-	35,599	-	35,599
3	Commissioning	-	-	2,374	-	87	18	-	1,347	(11,287)	7,461	-
4	Improvements of property, equipment and intangible assets	-	-	501	-	-	-	-	2	(19,580)	19,077	-
5	Transfer to non-current assets held for sale		(6,750)	-	-	-	-	-	-	-	-	(6,750)
5.1	Historical cost		(7,180)	-	-	-	-	-	-	-	-	(7,180)
5.2	Depreciation		430	-	-	-	-	-	-	-	-	430
6	Disposals	-	(43,913)	(250)	-	-5	-	(59)	-	(37)	-	(44,264)
6.1	Disposal (historical cost)	-	(46,267)	(28,312)	(2,709)	(1,002)	(715)	(78)	(290)	(37)	(4,817)	(84,227)
6.2	Disposal (impairment)	-	2,354	28,062	2,709	997	715	19	290	-	4,817	39,963
7	Depreciation/amortisation charge	-	(14,845)	(7,955)	(443)	(683)	(158)	(3,282)	(1,349)	-	(82,963)	(111,678)
8	Revaluation	27	12,280	-	-	-	-	-	-	-	-	12,307
8.1	Revaluation of historical cost	27	(215)	-	-	-	-	-	-	-	-	-188
8.2	Revaluation of depreciation/amortisation	-	12,495	-	-	-	-	-	-	-	-	12,495

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
9	**Carrying amount as at 31 December 2019 (01 January 2020):**	**255**	**199,556**	**18,365**	**304**	**3,803**	**796**	**6,152**	**-**	**14,215**	**90,051**	**333,497**
9.1	**Historical (revalued) cost 31 December 2019 (01 January 2020)**	**255**	**203,157**	**146,355**	**7,921**	**8,721**	**1,377**	**19,405**	**10,055**	**14,215**	**443,539**	**855,000**
9.2	**Depreciation as at 31 December 2019 (01 January 2020)**	**-**	**(3,601)**	**(127,990)**	**(7,617)**	**(4,918)**	**(581)**	**(13,253)**	**(10,055)**	**-**	**(353,488)**	**(521,503)**
10	Additions	-	-	-	-	-	-	-	-	77,267	-	77,267
11	Commissioning	-	-	15,151	-	149	-	-	1,454	(34,136)	17,382	-
12	Improvements of property, equipment and intangible assets	-	104	211	-	-	-	140	-	(41,654)	41,199	-
13	Disposals	-	(3,024)	(191)	-	(5)	(4)	-	-	(69)	-	(3,293)
13.1	Disposal (historical cost)	-	(3,751)	(12,201)	-	(600)	(41)	(2)	(164)	(69)	(624)	(17,452)
13.2	Disposal (impairment)	-	727	12,010	-	595	37	2	164	-	624	14,159
14	Depreciation/amortisation charge	-	(13,104)	(7,514)	(252)	(642)	(159)	(2,625)	(1,454)	-	(31,193)	(56,943)
15	Revaluation	2	20,681	-	-	-	-	-	-	-	-	20 683
15.1	Revaluation of historical cost	2	8 870	-	-	-	-	-	-	-	-	8,872
15.2	Revaluation of depreciation/amortisation	-	11,811	-	-	-	-	-	-	-	-	11,811
16	**Carrying amount as at 31 December 2020:**	**257**	**204,213**	**26,022**	**52**	**3,305**	**633**	**3,667**	**-**	**15,623**	**117,439**	**371,211**

(in thousands of Ukrainian hryvnias)

Line	Item	Land plots	Buildings, constructions and transmission equipment	Machinery and equipment	Vehicles	Fixtures and fittings (furniture)	Other PP&E	Other non-current tangible assets	Low-value non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
16.1	Historical (revalued) cost	257	208,380	149,516	7,921	8,270	1,336	19,543	11,345	15,623	501,496	923,687
16.2	Depreciation as at 31 December 2020	-	(4,167)	(123,494)	(7,869)	(4,965)	(703)	(15,876)	(11,345)	-	(384,057)	(552,476)

As at 31 December 2020, there are no property, plant and equipment items that are:
— legally restricted for ownership, use and disposal;
— pledged as collateral;
— temporarily not in use (conservation, reconstruction, etc.);
— restricted in terms of ownership;
— decommissioned.
As at 31 December 2020, historical (revalued) cost of fully depreciated/amortised property, plant and equipment, intangible assets and other non-current assets amounts to UAH 239,783 thousand. (2019: UAH 228,249 thousand):
— property, plant and equipment – UAH 113,011 thousand (2019: UAH 107,473 thousand)
— intangible assets – UAH 104,962 thousand (2019: UAH 102,487 thousand)
— other non-current assets – UAH 21,810 thousand (2019: UAH 18,289 thousand)
As at 31 December 2020, the costs incurred from the impairment of property held for sale – UAH 98 thousand (2019: UAH 4,734 thousand).
— recognised directly in equity – UAH 0 thousand (2019: UAH 0.00).
As at 31 December 2020, internally generated intangible assets amounted to UAH 0,00 (2019: UAH 0.00 thousand)

Note 12. Right-of-use assets

The Bank leases office space for the most part. As a rule, a lease is concluded for 3 years with an extension option. The Bank assesses the non-cancellable lease term and its right to exercise the lease extension option in order to recognise the lease arrangement and the non-cancellable term of the lease. Lease payments are reviewed annually or in accordance with the lease.

Certain leases envisage additional lease payments based on movements in the inflation index. Office space leases were entered into several years ago, same as other leases. In prior periods, the leases were classified as operating leases under IAS 17.

Table 12.1 Right-of-use assets.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Right-of-use assets:		
1.1	Buildings and structures	46,372	52,828
2	**Total other assets less provisions**	**46,372**	**52,828**

Line 2 in Table 12.1 corresponds to account “Right-of-use assets” in the statement of financial position.

Table 12.2 Movements in right-of-use assets during the year 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2020	52,828	52,828
2	Adjustment due to changes in accounting policies under IFRS 16	24,926	24,926
3	Amortisation/depreciation charges for the year	(25,656)	(25,656)
4	Derecognition of right-of-use assets	(5,726)	(5,726)
5	**Balance at 31 December 2020**	**46,372**	**46,372**

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
5.1	Right-of-use assets	93,385	93,385
5.2	Amortisation/depreciation charges for the year	(47,013)	(47,013)

Table 12.3 Movements in right-of-use assets during the year 2019.

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Buildings**	**Total**
1	**2**	**3**	**4**
1	Balance at 1 January 2019	-	-
2	Adjustment due to changes in accounting policies under IFRS 16	79,430	79,430
3	Amortisation/depreciation charges for the year	(24,645)	(24,645)
4	Derecognition of right-of-use assets	(1,957)	(1,957)
5	**Balance at 31 December 2019**	**52,828**	**52,828**
5.1	Right-of-use assets	76,636	76,636
5.2	Amortisation/depreciation charges for the year	(23,807)	(23,807)

Note 13. Other financial assets

Table 13.1. Other financial assets

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Accounts receivable from transactions with customers	12,773	10,777
2	Amounts due on accrued income from cash and settlement services and other accrued income	2,372	2,454
3	Accounts receivable from transactions with payment cards	8,266	22,879
3.1	Accounts receivable from transactions with payment cards	8,266	31,955
3.2	Provision for operating risks on transactions with payment cards	-	(9,076)
4	Accounts receivable from transactions with banks	-	932
5	Other assets	20	169
6	Provision for impairment	(10,513)	(11,146)
7	**Total other financial assets less provisions**	**12,918**	**26,065**

Line 7 in Table 13.1 corresponds to account "Other financial assets" in the statement of financial position. In order to cover operational risks associated with the accumulation of active balances on transit accounts as far as the interbank transactions with payment cards issued by the Bank in the network of other banks and with payment cards issued by other banks in the Bank's network, as well as the acquiring transactions, the Bank created a provision that is recognised in Line 3.2 Table 13.1. Other financial assets.

Table 13.2. Analysis of changes in provision for impairment of other financial assets for 2020

(in thousands of Ukrainian hryvnias)						
Line	**Movements in provisions**	**Accounts receivable from transactions with customers**	**Amounts due on overdue accrued income from cash and settlement services, and other accrued income**	**Accounts receivable from transactions with banks**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2020	**(9,590)**	**(506)**	**(932)**	**(118)**	**(11,146)**
2	(Increase)/decrease in provision for impairment during the year	63	(188)	-	-	(125)
3	Bad debt written off	-	-	932	118	1,050
4	Foreign exchange differences on provisions	(285)	(7)	-	-	(292)
5	**Closing balance as at 31 December 2020**	**(9,812)**	**(701)**	**-**	**-**	**(10,513)**

Line 2 Table 13.2 and Line 2 Table 14.2 corresponds to account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income. The difference between amounts shown in account "Net (increase) in provisions for impairment of accounts receivable and other financial assets" in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 13.2 and Table 14.2 represent the bad debt written-off in previous reporting periods against provision and repaid during 2020 at the amount of UAH 1 thousand.

Table 13.3. Analysis of changes in provision for impairment of other financial assets for 2019

(in thousands of Ukrainian hryvnias)						
Line	**Movements in provisions**	**Accounts receivable from transactions with customers**	**Amounts due on overdue accrued income from cash and settlement services, and other accrued income**	**Accounts receivable from transactions with banks**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Balance as at 1 January 2019	(9,896)	(298)	(932)	(231)	(11,357)
2	(Increase)/decrease in provision for impairment during the year	140	(266)	-	8	(118)
3	Bad debt written off	26	72	-	105	203
4	Recovery of debt written off against provisions in prior periods	-	(14)	-	-	(14)

(in thousands of Ukrainian hryvnias)						
Line	**Movements in provisions**	**Accounts receivable from transactions with customers**	**Amounts due on overdue accrued income from cash and settlement services, and other accrued income**	**Accounts receivable from transactions with banks**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
5	Foreign exchange differences on provisions	140	-	-	-	140
6	**Closing balance as at 31 December 2019**	**(9,590)**	**(506)**	**(932)**	**(118)**	**(11,146)**

Table 13.4. Credit quality analysis of other financial assets as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)						
Accounts receivable without significant financing component						
Line	**Item**	**Accounts receivable from transactions with customers**	**Amounts due on accrued income from cash and settlement services and other accrued income**	**Accounts receivable from transactions with payment cards**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1:	3,056	1,695	8,266	20	13,037
1.1	Not overdue	2,747	1,642	8,266	20	12,675
1.2	Less than 30 days	197	13	-	-	210
1.3	31 - 60 days	98	19	-	-	117
1.4	61 - 90 days	14	21	-	-	35
2	Impairment Stage 3:	9,716	678	-	-	10,394
2.1	Less than 30 days	-	3	-	-	3
2.2	31 - 60 days	-	12	-	-	12
2.3.	61 - 90 days	-	2	-	-	2
2.4	91 - 180 days	6	46	-	-	52
2.5	181 - 270 days	-	37	-	-	37
2.6	More than 270 days	9,710	578	-	-	10,288
3	Total other financial assets	12,772	2,373	8,266	20	23,431
4	Provision for impairment of other assets	(9,812)	(701)	-	-	(10,513)
5	**Total other financial assets less provisions**	**2,960**	**1,672**	**8,266**	**20**	**12,918**

Table 13.5. Credit quality analysis of other financial assets as at 31 December 2019 and for the year then ended

(in thousands of Ukrainian hryvnias)

		Accounts receivable without significant financing component					
Line	**Item**	**Accounts receivable from transactions with customers**	**Amounts due on accrued income from cash and settlement services and other accrued income**	**Accounts receivable from transactions with payment cards**	**Accounts receivable from transactions with banks**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	1,229	1,971	22,879	-	50	26,130
1.1	Not overdue	1,037	1,901	22,879	-	50	25,868
1.2	Less than 30 days	182	50	-	-	-	232
1.3	31 - 60 days	9	11	-	-	-	20
1.4	61 - 90 days	1	9	-	-	-	10
2	Impairment Stage 3:	9,548	483	-	932	118	11,081
2.1	Less than 30 days	-	12	-	-	-	12
2.2	31 - 60 days	-	7	-	-	-	7
2.3	61 - 90 days	-	11	-	-	-	11
2.4	91 - 180 days	96	74	-	-	-	170
2.5	181 - 270 days	11	42	-	-	-	53
2.6	More than 270 days	9,441	337	-	932	118	10,828
3	Total other financial assets	10,777	2,454	22,879	932	169	37,211
4	Provision for impairment of other assets	(9,590)	(506)	-	(932)	(118)	(11,146)
5	**Total other financial assets less provisions**	**1,187**	**1,948**	**22,879**	**-**	**50**	**26,065**

Note 14. Other non-financial assets

Table 14.1. Other non-financial assets

(in thousands of Ukrainian hryvnias)

Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Accounts receivable from purchase of assets	-	683
2	Prepaid services	14,439	12,342
3	Precious metals	3,097	14,976
4	Accounts receivable from taxes and mandatory payments other than income tax	193	188
5	Other assets	2,807	1,161
6	Provision for other financial assets	(719)	(1,297)
7	**Total other non-financial assets less provisions**	**19,817**	**28,053**

Line 7 in Table 14.1 corresponds to account "Other non-financial assets" in the statement of financial position.

Table 14.2. Movements in provision for impairment of other non-financial assets as at 31 December 2020 and for the year then ended

					(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2020	**(538)**	**(423)**	**(336)**	**(1,297)**
2	(Increase) in provision for impairment during the year	38	209	-	247
3	Bad debt written off	500	11	-	511
4	Foreign exchange differences on provisions	-	-	(180)	(180)
5	**Balance at 31 December 2020**	**-**	**(203)**	**(516)**	**(719)**

Line 2 Table 13.2 and Line 2 Table 14.2 corresponds to account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income. The difference between amounts shown in account "Net (increase) in provisions for impairment of other financial and non-financial assets" in the statement of profit or loss and other comprehensive income and amounts in Line 2 Table 13.2 and Table 14.2 represents the bad debt written-off in prior reporting periods against provision and repaid during 2020 at the amount of UAH 1 thousand.

Table 14.3. Movements in provision for impairment of other non-financial assets as at 31 December 2019 and for the year then ended

					(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2019	(108)	(437)	(332)	(877)
2	(Increase) in provision for impairment during the year	(430)	(11)	-	(441)
3	Bad debt written off	-	25	-	25
4	Foreign exchange differences on provisions	-	-	(4)	(4)
5	**Balance at 31 December 2019**	**(538)**	**(423)**	**(336)**	**(1,297)**

Table 14.4. Credit quality analysis of other non-financial assets as at 31 December 2020 and for the year then ended

						(in thousands of Ukrainian hryvnias)
Accounts receivable without significant financing component						
Line	**Item**	**Prepaid services**	**Precious metals**	**Accounts receivable from taxes and mandatory payments other than income tax**	**Other assets**	***Total***
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Impairment Stage 1:	14,236	3,097	193	2,807	20,333
1.1	Not overdue	14,234	3,097	193	2,807	20,331
1.2	31 - 60 days	2	-	-	-	2
2	Impairment Stage 3:	203	-	-	-	203
2.1	Less than 30 days	11	-	-	-	11
2.2	31 - 60 days	14	-	-	-	14
2.3	61 - 90 days	4	-	-	-	4
2.4	91 - 180 days	3	-	-	-	3
2.5	More than 270 days	171	-	-	-	171
3	Total other non-financial assets	14,439	3,097	193	2,807	20,536
4	Provision for impairment of other non-financial assets	(203)	(516)	-	-	(719)
5	**Total other non-financial assets less provisions**	**14,236**	**2,581**	**193**	**2,807**	**19,817**

Table 14.5. Credit quality analysis of other non-financial assets as at 31 December 2019 and for the year then ended

							(in thousands of Ukrainian hryvnias)
Accounts receivable without significant financing component							
Line	**Item**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Accounts receivable from taxes and mandatory payments other than income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	Impairment Stage 1:	181	11,919	14,976	188	1,161	28,425
1.1	Not overdue	-	11,919	14,976	188	1,161	28,244
1.2	Less than 30 days	119	-	-	-	-	119
1.3	61 - 90 days	62	-	-	-	-	62
2	Impairment Stage 3:	502	423	-	-	-	925
2.1	31 - 60 days	1	-	-	-	-	1
2.2	91 - 180 days	501	-	-	-	-	501

							(in thousands of Ukrainian hryvnias)
Accounts receivable without significant financing component							
Line	**Item**	**Accounts receivable from purchase of assets**	**Prepaid services**	**Precious metals**	**Accounts receivable from taxes and mandatory payments other than income tax**	**Other assets**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
2.3.	More than 270 days	-	423	-	-	-	423
3	Total other non-financial assets	683	12,342	14,976	188	1,161	29,350
4	Provision for impairment of other non-financial assets	(538)	(423)	(336)	-	-	(1,297)
5	**Total other non-financial assets less provisions**	**145**	**11,919**	**14,640**	**188**	**1,161**	**28,053**

Note 15. Non-current assets held for sale and disposal groups

Table 15.1. Non-current assets held for sale

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Non-current assets held for sale:	-	41,264
1.1	Property, plant and equipment	-	41,264
2	**Total non-current assets held for sale**	-	**41,264**

Line 2 Table 15.1 corresponds to account “Non-current assets held for sale” in the statement of financial position.

Non-current assets held for sale include collateral, foreclosed by the Bank under the law of Ukraine, and its own property that accommodates the Bank's branches. Non-current assets are expected to be recovered by way of a sale.

Note 16. Due to banks

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	Correspondent accounts	214	214
2	Loand received from other banks	300,000	-
3	**Total due to banks**	**300,214**	**214**

Line 2 in Note 16 corresponds to account “Due to banks” in the statement of financial position.

Note 17. Due to customers

Table 17.1. Breakdown of amounts due to customers

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	2	3	4
1	**Government and public organisations:**	**12,211**	**298,751**
1.1	Current accounts	12,211	9,814
1.2	Term deposits	-	288,937
2	**Other legal entities:**	**3,120,693**	**1,460,241**
2.1	Current accounts	2,483,600	996,196
2.2	Term deposits	637,093	464,045
3	**Individuals:**	**2,295,022**	**1,879,312**
3.1	Current accounts	1,674,700	1,329,360
3.2	Term deposits	620,322	549,952
4	**Total amounts due to customers**	**5,427,926**	**3,638,304**

Line 4 in Table 17.1 corresponds to account "Due to customers" in the statement of financial position.

The Bank believes that a potential concentration risk may arise when at least 10% of deposits from customers (excluding subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2020 and 31 December 2019, deposits of the 4 and 5 customers of the Bank amounted to UAH 609,494 thousand and UAH 452,141 thousand, respectively, representing 11.23% and 12% of total due to customers as at the reporting dates.

Table 17.2. Breakdown of amounts due to customers by types of economic activity

(in thousands of Ukrainian hryvnias)

Line	Economic activity	31/12/2020		31/12/2019	
		amount	%	amount	%
1	2	3	4	5	6
1	State authorities	10	0.01%	11	0.01%
2	Production and distribution of electricity, natural gas and water	13,686	0.25%	11,902	0.33%
3	Transactions with real estate, leasing, engineering and servicing	248,590	4.58%	151,083	4.15%
4	Trade, repair of vehicles, household equipment and items of personal use	692,098	12.75%	363,633	9.99%
5	Agriculture, hunting, forestry	19,908	0.37%	46,741	1.28%
6	Retail	2,295,022	42.28%	1,879,312	51.65%
7	Processing industry	675,982	12.45%	205,484	5.65%
8	Financial and insurance services	850,295	15.67%	636,302	17.49%
9	Construction	133,468	2.46%	64,394	1.77%
10	Information and telecommunications	199,754	3.68%	149,918	4.12%
11	Other	299,113	5.50%	129,524	3.56%
12	**Total amounts due to customers**	**5,427,926**	**100.00%**	**3,638,304**	**100,00%**

Note 18. Debt securities issued by the Bank

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	2	3	4
1	Certificates of deposit at AC	1	3,583
2	**Total**	**1**	**3,583**

Line 2 in Note 18 corresponds to account "Debt securities issued by the Bank" in the statement of financial position.

As at 31 December 2020 and at 31 December 2019, the Bank has no convertible debt instruments.

Note 19. Provisions for liabilities

Table 19.1. Movement in provisions for liabilities as at 31 December 2020 and for the year then ended.

				(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Credit-related commitments**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**	**5**
1	Balance at the beginning of the year	**3,335**	**8,175**	**11,510**
2	Increase/(decrease) in provision for impairment during the year	10,801	(6,121)	4,680
3	Amounts repaid	-	(124)	(124)
4	Foreign exchange differences on provisions	1,808	-	1,808
5	**Balance at 31 December 2020**	**15,944**	**1,930**	**17,874**

Line 5 in Table 19.1 corresponds to account "Provisions for liabilities" in the statement of financial position.

As at 31 December 2020, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:

- UAH 1,265 thousand on employment contract disputes;
- UAH 665 thousand on tax liabilities;

By results of 2017, the Bank had a dispute with state authorities for the amount of UAH 196 thousand. Based on the Bank's estimates regarding the dispute resolution, no provisions for contingent liabilities in respect of this risk were created in the financial statements as at 1 January 2019.

Table 19.2. Movement in provisions for liabilities as at 31 December 2019 and for the year then ended.

				(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Credit-related commitments**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**	**5**
1	Balance at the beginning of the year	**2,525**	**4,820**	**7,345**
2	Increase in provision for impairment during the year	1,082	3,987	5,069
3	Amounts repaid	-	(632)	(632)
4	Foreign exchange differences on provisions	(272)	-	(272)
5	**Balance at 31 December 2019**	**3,335**	**8,175**	**11,510**

Line 5 in Table 19.1 corresponds to account "Provisions for liabilities" in the statement of financial position.

As at 31 December 2019, the Bank's contingencies arising from proceedings in administrative courts and courts of general jurisdiction amount to:

— UAH 1,265 thousand on employment contract disputes;

— UAH 6,245 thousand on deposit contract disputes.

— UAH 665 thousand on tax liabilities.

Note 20. Other financial liabilities

Table 20.1. Other financial liabilities as at 31 December 2020

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Balances on the investment account of Intesa Sanpaolo S.p.A.	4,357	4,350
2	Accounts payable on transactions with customers	58,713	28,377
3	Accounts payable on debit and credit cards	11,527	44,759
4	Foreign exchange transactions and settlements	9	3,383
5	Provisions for other labour payables	12,663	26,373
6	Lease liabilities	50,136	54,314
7	Other debt	2,185	2,212
8	**Total other financial liabilities**	**139,590**	**163,768**

Line 8 in Note 20 corresponds to account "Other financial liabilities" in the statement of financial position.

Table 20.2. Lease liabilities by maturities for 2020

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**less than 12 months**	**more than 12 months**	**Total**
1	**2**	**3**	**4**	**5**
1	Lease liabilities:	27,050	23,086	50,136
1.1	Buildings and constructions	27,050	23,086	50,136

Table 20.3. Lease liabilities by maturities for 2019

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**less than 12 months**	**more than 12 months**	**Total**
1	**2**	**3**	**4**	**5**
1	Lease liabilities:	19,536	34,778	54,314
1.1	Buildings and constructions	19,536	34,778	54,314

Note 21. Other non-financial liabilities

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Accounts payable on taxes other than income tax	10,321	8,655
2	Accounts payable on labour	7,426	7,560
3	Accounts payable on asset acquisitions	697	4,690
4	Deferred income	8,932	6,564
5	Accounts payable on recruitment services	14,849	9,491
6	Accounts payable on technical support and software maintenance services	40	511
7	Accounts payable on services and security	6,588	7,815
8	Accounts payable on services related to bad debt recovery	84	24
9	Settlements via payment systems and Ukrainian Processing Center	5,833	6,901
10	Other debt	23	6
11	**Total other non-financial liabilities**	**54,793**	**52,217**

Line 11 in Note 21 corresponds to account "Other non-financial liabilities" in the statement of financial position.

Note 22. Share capital

(in thousands of Ukrainian hryvnias)

Line	Item	Number of shares in issue (in thousands)	Ordinary shares	Share premium	Preference shares	Total
1	2	3	4	5	6	7
1	**Balance at 1 January 2019**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
2	Contributions for newly issued shares	-	-	-	-	-
3	**Balance at 31 December 2019 (balance at 1 January 2020)**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**
4	Contributions for newly issued shares	-	-	-	-	-
5	**Balance at 31 December 2020**	**1,688,085**	**1,047,856**	**4,600,754**	**870**	**5,649,480**

As at 31 December 2020 and 31 December 2019, preference shares outstanding amount to 1,500 shares in total.

As at 31 December 2020 and 31 December 2019, the nominal value of the shares is UAH 0.58 per share.

Holders of preference shares have the right to:

- participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of the Bank's net profit earned in the respective year;
- preferences stipulated by the terms of preference share issue are as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit earned in the respective year.

In accordance with the Ukrainian legislation, distributable reserves are restricted by retained earnings in accordance with laws and regulations.

Note 23. Revaluation reserves (components of other comprehensive income)

Table 23.1. Securities revaluation reserves

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	2	3	4
1.	Balance at 1 January	**3,867**	**-**
2	Changes in gains/losses arising from revaluation of securities at FVTOCI:	(7,469)	4,716
2.1	changes in revaluation to fair value	53,430	13,730
2.2	impairment	(60,899)	(9,014)
3	Income tax related to change in reserve for investments in securities	849	(849)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
4	**Total revaluation reserves less income tax**	**(2,753)**	**3,867**

Table 23.2. Movements in revaluation reserve for property, plant and equipment

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Balance at 1 January	**206,809**	**251,387**
2	Revaluation of PP&E	12,857	(44,141)
2.1	changes in revaluation to fair value	19,941	17,946
2.2	impairment	-	(9,455)
2.3	realised gain/loss on revaluation attributed to retained earnings	(7,084)	(52,632)
3	Income tax related to revaluation of property, plant and equipment	(6,091)	(437)
4	**Total revaluation reserves less income tax**	**213,575**	**206,809**

Table 23.3. Results of adjusting the value of financial instruments in transactions with shareholders

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1.	Balance at 1 January	**72**	22
2	Results of adjusting the value of financial instruments in transactions with shareholders	27	61
2.1	Gain recognised on initial recognition of the financial instrument in transactions with the Bank's shareholders	276	446
2.2	(Loss) recognised on initial recognition and attributed to retained earnings on disposal of the financial instrument in transactions with the Bank's shareholders	(37)	-
2.3	(Loss) recognised on initial recognition and attributed to retained earnings on disposal of the financial instrument in transactions with the Bank's shareholders	(212)	(385)
3	Income tax related to changes in the adjustment of the value of financial instruments in transactions with the Bank's shareholders	(5)	(11)
4	**Total adjustments of the value of financial instruments, net of income tax**	**94**	**72**

Note 24. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Item	Notes	31 December 2020			31 December 2019		
			less than 12 months	more than 12 months	total	less than 12 months	more than 12 months	total
1	2	3	4	5	6	7	8	9
ASSETS								
1	Cash and cash equivalents	6	1,005,572	-	**1,005,572**	787,608	-	787,608
2	Loans and advances to banks	7	282,849	-	**282,849**	377,325	-	377,325
3	Loans and advances to customers	8	1,836,421	1,261,894	**3,098,315**	1,034,995	400,802	1,435,797
4	Investments in securities	9	2,794,875	-	**2,794,875**	2,661,675	-	2,661,675
5	Investment property	10	-	32,872	**32,872**	-	19,380	19,380
6	Current income tax receivable		542	-	**542**	1,141	-	1,141
7	Property, plant and equipment and intangible assets	11	-	371,211	**371,211**	-	333,497	333,497
8	Right-of-use assets	12	22,823	23,549	**46,372**	28223	24605	52,828
9	Other financial assets	13	12,918	-	**12,918**	26,065	-	26,065
10	Other non-financial assets	14	19,817	-	**19,817**	28,053	-	28,053
11	Non-current assets held for sale	15	-	-	-	41,264	-	41,264
12	**Total assets**		**5,975,817**	**1,689,526**	**7,665,343**	**4,986,349**	**778,284**	**5,764,633**
LIABILITIES								
13	Due to banks	16	300,214	-	**300,214**	214	-	214
14	Due to customers	17	5,380,299	47,627	**5,427,926**	3,629,327	8,977	3,638,304
15	Debt securities issued by the Bank	18	1	-	**1**	3,583	-	3,583
16	Deferred tax liabilities	29	5,247	-	**5,247**	-	-	-
17	Provisions for liabilities	19	11,549	6,325	**17,874**	11,510	-	11,510
18	Other financial liabilities	20	116,371	23,219	**139,590**	139,202	24,566	163,768
19	Other non-financial liabilities	21	54,793	-	**54,793**	52,217	-	52,217
20	**Total liabilities**		**5,868,474**	**77,171**	**5,945,645**	**3,836,053**	**33,543**	**3,869,596**

Note 25. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	**2**	**3**	**4**
	Interest income		
1	Interest income on investments in securities at AC	2,238	18,633
2	Interest income on loans and advances to banks at AC	234,383	149,220
3	Interest income on loans and advances to customers at AC	97,232	126,464
4	Interest income on loans and advances to banks at FV	121,613	251,468
5	**Total interest income**	**455,466**	**545,785**
	Interest expense:		
6	Interest expenses on term deposits of corporate customers at AC	(27,098)	(41,501)
7	Interest income on term deposits of individuals at AC	(21,329)	(18,869)
8	Interest income on overnight loans from other banks at AC	(45)	(32)
9	Interest expenses on current accounts at AC	(2,065)	(81,453)
10	Interest income on securities issued by the Bank and carried at AC	(94,747)	-
11	Interest expense on lease liabilities of the lessee	(7,831)	(10,050)
12	**Total interest expenses**	**(153,115)**	**(151,905)**
13	**Net interest income**	**302,351**	**393,880**

Line 13 in Note 25 corresponds to account "Net interest income" in the Statement of profit or loss and other comprehensive income.

Note 26. Commission/fee income and expenses

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	**2**	**3**	**4**
	COMMISSION INCOME:		
1	Cash and settlement services	102,591	102,832
2	Bank commission for the lease of safe deposit boxes	11,695	10,102
3	Commission for consulting services	2	25
4	Commission for insurance broker services	2,610	3,659
5	Commission for TaxFree check payments	734	1,506
6	Transactions with securities	455	484
7	Interbank transactions with plastic cards	24,832	30,618
8	Guarantees issued	7,438	1,010
9	Other	24	40
10	**Total fee and commission income**	**150,381**	**150,276**
	COMMISSION EXPENSE:		
11	Cash and settlement services	(39,078)	(47,269)
12	Commission for services and other commissions	(44)	(149)
13	Guarantee expenses	(784)	(100)
14	Services provided by payment systems and transactions with plastic cards	(11,065)	(16,768)
15	**Total fee and commission expense**	**(50,971)**	**(64,286)**
16	**Net fee and commission income**	**99,410**	**85,990**

Line 10 and Line 15 in Note 26 correspond to accounts "Commission income" and "Commission expense" in the statement of profit or loss and other comprehensive income.

Note 27. Other operating income

(in thousands of Ukrainian hryvnias)

Line	Item	31/12/2020	31/12/2019
1	**2**	**3**	**4**
1	Operating lease income	73	388
2	Penalties and fines received	474	667

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
3	Undrawn funds upon expiration of limitation period	19,872	6,406
4	Shortages charged to responsible employees	316	180
5	Result from disposal of investment property	83	7,651
6	Result from disposal of property, plant and equipment	9,991	26,021
7	Result from evaluation of property, plant and equipment	-	4,010
8	Gains from recovering an advance payment for enforcement proceedings, court fees and other related costs	1,463	1,562
9	Income from the provision of a discount for the quarantine period for the lease of the premises	1,825	-
10	Income from payment systems	1,553	-
11	Other	2,185	330
12	**Total operating income**	**37,835**	**47,215**

Line 10 in Note 27 corresponds to account "Other operating income" in the statement of profit or loss and other comprehensive income.

Note 28. Other administrative and operating expenses

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Business trips	579	4,293
2	Recruitment services	25,381	25,101
3	Maintenance of property, plant and equipment and intangible assets, telecommunication and other operation services	167,712	167,556
4	Operating lease expenses	2,490	4,145
5	Cash collection and transportation	550	488
6	Services provided by payment systems on payment cards	7,846	7,295
7	Legal services on litigations and payments to collectors	4,870	4,537
8	Professional services	24,389	21,667
9	Marketing and advertising expenses	6,039	6,456
10	Security expenses	5,457	6,993
11	Taxes other than income tax	27,038	20,859
12	Write-down of property, plant and equipment	258	4,927
13	Loss on modification of financial assets	1,144	-
14	Other	1,114	5,088
15	**Total other administrative and operating expenses**	**274,867**	**279,405**

Line 14 in Note 28 corresponds to account "Other administrative and operating expenses" in the statement of profit or loss and other comprehensive income.

Line 4 "Operating lease expenses" for 2020 and 2019 breaks down operating lease expenses by items that do not qualify for right-of-use assets IFRS 16 Leases due to the short-term period of the lease and/or insignificant value of the leased asset.

Note 29. Income tax expense

Table 29.1. Income tax benefits

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	**Current income tax**	**-**	**-**
2	**Change in deferred income tax resulting from:**	**-**	**1,297**
2.1	origination or write-off of temporary differences	-	1,297

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
2.2	increase or decrease in tax rate	-	-
3	**Total income tax benefit**	**-**	**1,297**

Line 3 in Table 29.1 corresponds to account "Income tax benefit" in the statement of profit or loss and other comprehensive income.

Table 29.2. Reconciliation of accounting loss and taxable loss

(in thousands of Ukrainian hryvnias)			
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	(Loss) before tax	(182,803)	(122,799)
2	Income tax at applicable tax rate	32,904	22,104
3	Effect of permanent tax differences	-	535
4	Changes in unrecognised deferred tax assets	(78,643)	(70,602)
5	Deferred tax asset not recognised previously	45,739	49,260
6	**Income tax benefits**	**-**	**1,297**

Table 29.2.1. Tax effects of deferred tax assets and liabilities recognised for 2020

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balance at 1 January 2020**	**Recognised in profit or loss during the year**	**Recognised in OCI during the year**	**Balance at 31 December 2020**
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1.	Property, plant and equipment, intangible assets and investment property	-	-	(6,091)	(6,091)
1.2.	Adjustment of the value of financial instruments on initial recognition	-	-	844	844
2	Net of deferred tax asset (liability), including:	-	-	(5,247)	(5,247)
3	**Recognised deferred tax liability**	**-**	**-**	(5,247)	(5,247)

Table 29.2.2. Unrecognised deferred tax assets for 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2020	Changes in unrecognised deferred tax assets at year-end 2020	Changes in assessment of whether tax differences, against which the DTA was not recognised in 2020, can be utilised in the future	Balance at 31 December 2020
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carried forward	432,066	73,611	(27,087)	478,590
1.2	Provisions for liabilities	3,076	165	-	3,241
1.3	Other assets	2,007	495	-	2,502
1.4.	Property, plant and equipment, intangible assets and investment property	7,191	4,371	-	11,562
2	**Provision for impairment of deferred tax assets**	**(444,340)**	**(78,642)**	**27,087**	**(495,895)**
2.1	Provision for tax losses carried forward	(432,066)	(46,524)	-	(478,590)
2.2	Provision for impairment of other deferred tax assets	(12,274)	(5,031)	-	(17,305)

Table 29.3.1. Tax effects of deferred tax assets and liabilities recognised for 2019

(in thousands of Ukrainian hryvnias)

Line	Item	Balance at 1 January 2019	Recognised in profit or loss during the year	Recognised in OCI during the year	Balance at 31 December 2019
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences**				
1.1	Property, plant and equipment, intangible assets and investment property	-	437	(437)	-
1.2	Adjustment of the value of financial	-	860	(860)	-

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balance at 1 January 2019**	**Recognised in profit or loss during the year**	**Recognised in OCI during the year**	**Balance at 31 December 2019**
1	**2**	**3**	**4**	**5**	**6**
	instruments on initial recognition				
2	Net of deferred tax asset (liability), including:	-	1,297	(1,297)	-
3	**Recognised deferred tax liability**	**-**	**-**	**-**	**-**

Table 29.3.2. Unrecognised deferred tax assets for 2019

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**Balance at 1 January 2019**	**Changes in unrecognised deferred tax assets at year-end 2019**	**Changes in assessment of whether tax differences, against which the DTA was not recognised in 2019, can be utilised in the future**	**Balance at 31 December 2019**
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of impaired temporary differences:**				
1.1	Tax losses carried forward	381,323	72,583	(21,840)	432,066
1.2	Provisions for liabilities	1,388	1,688	-	3,076
1.3	Other assets	2,007	-	-	2,007
1.4	Property, plant and equipment, intangible assets and investment property	10,859	(3,668)	-	7,191
2	**Provision for impairment of deferred tax assets**	**(395,577)**	**(70,603)**	21,840	**(444,340)**
2.1	Provision for tax losses carried forward	(381,323)	(50,743)	-	(432,066)
2.2	Provision for impairment of other deferred tax assets	(14,254)	1,980	-	(12,274)

Note 30. (Loss)/gain per ordinary share and preference share

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Loss attributable to holders of ordinary shares	(182,803)	(121,502)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(182,803)	(121,502)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,686,586	1,686,586
5	Annual average number of preference shares outstanding (in thousands of shares)	1,500	1,500
6	Basic and diluted (loss) per ordinary share (in UAH)	(0.11)	(0.03)
7	Basic and diluted gain per preference share (in UAH)	0.10	0.10

Note 31. Dividends

					(in thousands of Ukrainian hryvnias)
		31/12/2020		**31/12/2019**	
Line	**Item**	**Ordinary shares**	**Preference shares**	**Ordinary shares**	**Preference shares**
1	**2**	**3**	**4**	**5**	**6**
1	Balance at 1 January	-	-	-	-
2	Dividends declared for payout during the period	-	157	-	157
3	Increase in reserves due to dividends	-	(157)	-	(157)
4	**Balance at the end of the period**	-	-	-	-

In accordance with the shareholder's resolution no. 2/2020 dated 25 June 2020, dividends on preference shares payable for 2019 were calculated and transferred to the Bank's reserves.

Note 32. Contingent liabilities

Capital investment commitments

As at 31 December 2020, JSC "PRAVEX BANK" assumed contractual obligations to purchase property, plant and equipment and intangible assets in the amount of UAH 7,132 thousand (31 December 2019: UAH 4,295 thousand) in accordance with the contracts concluded.

Table 32.1. Structure of credit-related commitments

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	Credit-related commitments provided	-	36,745
2	Unused credit lines	2,080,498	618,446
3	Export letters of credit	331,157	173,771
4	Guarantees issued	1,777	26,422
5	Provision for credit-related commitments	(15,944)	(3,335)
6	**Total credit-related commitments less provisions**	**2,397,488**	**852,049**

The Bank has outstanding credit-related commitments. These commitments take the form of approved loans and overdraft credit card limits and credit lines. The total of outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without funds being drawn.

Table 32.2. Credit-related commitments by currencies (including provisions)

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	UAH	860,297	532,446
3	EUR	1,537,191	319,603
4	**Total**	**2,397,488**	**852,049**

Note 33. Financial risk management

The Bank manages its risks using a risk management system which is comprehensive, adequate and effective. The risk management system was designed by reference to the specifics of business, business model, nature and scope of operations, risk profile, requirements and recommendations of the NBU and the best practices of the parent company.

The risk management system provides continuous risk analysis for taking timely and adequate management decisions to mitigate risks and reduce their losses by clearly delimiting the functions and tasks of all units of the Bank using the three lines of defence model.

The risk management system includes the definition of the organisational structure, the system of internal documents on risk management, the information system and the risk management tools.

The Risk Management Department is one of the standalone structural units that ensures the Bank's risk management The Bank's system of internal documents establishes the principles of the control system by defining processes, limits, relevant functions and responsibilities. Policies also specify the risk limits and risk-taking principles by types of activity, as well as the necessary actions if the limits are exceeded.

The Bank has a risk management system that consists of permanent committees: Credit Committee, Risk Management Committee, Credit Risk Management Committee, Distressed Asset Management Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee, Information Security Management Committee of the Internal Controls Coordination Committee and of the Crisis Management Committee.

As part of risk management efforts, JSC "PRAVEX BANK" flags the following significant risks specific to its transactions: credit risk, liquidity risk, interest rate risk in the banking book, market risk, as well as non-financial ones – operational risk and compliance risk.

Credit risk

Credit risk is the risk that expected losses will occur on an asset resulting from default of a borrower/counterparty.

The Bank calculates the amount of credit risk by assets on an individual, collective basis.

The Bank groups financial assets on the basis of shared risk characteristics, in particular:

1. orientation;
2. type of product;
3. fractionality applied to loans united in:

- groups of loans issued to corporate borrowers (legal entities) (except for apartment building coowners associations (OSBB) and building cooperatives (ZhBK));
- groups of loans granted to retail borrowers (individuals) and secured by mortgage items;
- groups of loans granted to retail borrowers (individuals) and secured by purchased vehicles;
- groups of loans granted to retail borrowers (individuals) and secured by other types of collateral;

4. materiality of the individual requirements (the maximum amount of debt on multiple loans of a single debtor/counterparty included in the group cannot exceed the limit set for the respective group);
5. frequency and scope of debt repayment by the borrower as determined by the lending arrangement.

Individual credit risk is the risk of a specific debtor/counterparty of the bank. The assessment of individual credit risk involves the assessment of creditworthiness of an individual debtor/counterparty, i.e. their individual ability to settle the obligations assumed in full and on schedule.

For mitigating a credit risk, the Bank employs different types and conditions for lending transactions in terms of maturity, borrowers, collateral, interest rates, interest accrual methods, limits, loan portfolio diversification, provisioning, monitoring and risk control.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions. This is the risk that the fair value or future cash flows will change due to fluctuations in market variables such as interest rates, exchange rates and yield on securities.

In order to mitigate the effect that the market risk has on the Bank, the risk management department takes the following actions:

- updates internal market risk documents on a regular basis;
- monitors the level of the open currency position on a daily basis;
- forecasts the value of the open currency position and its relation to the regulatory capital on a daily basis;
- analyses movements in the market by reference to the movements in exchange rates and market prices for securities on a daily basis;
- assesses the market risk by calculating the value at risk (VaR) for the currency risk on a daily basis;
- determines the ratio of quantitative assessment of the market risk to the Bank's profit;
- monitors the level of risk appetite and limits set by the Bank and signals on the need to initiate an escalation process on a daily basis;
- conducts stress tests at least once a quarter;
- analyses new products and services in terms of market risk exposure;
- prepares complete market risk reports in a timely manner for the Bank's corporate bodies in accordance with the frequency and form requirements established by this document and other relevant internal documents.

Market risk management is carried out exclusively within the limits of the Bank's banking book using the following internal documents:

- Market risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies;
- Interest rate risk management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.
- Interest rate risk control and measurement rules of JSC PRAVEX BANK approved by decisions of the competent corporate bodies;
- Financial portfolio management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.

The Bank classifies and measures transactions with securities and other financial investments based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics. The Bank measures certificates of deposit and domestic government loan bonds in accordance with the Accounting Policy Regulation of JSC "PRAVEX BANK".

The Bank classifies and measures credit transactions based on the business model, that it uses for managing those assets, and their contractual cash flow characteristics at amortised cost. A credit transaction is assessed for consistency with the business model at the new product launching phase.

Currency risk

Currency risk arises from adverse fluctuations in foreign exchange rates that affect assets, liabilities and off-balance sheet positions in the trading and banking books of the Bank.

The Bank uses limits as the key tool for currency risk management. The Bank applies this instrument by establishing limits on the Bank's overall open foreign exchange position, and limits and sublimits on a foreign exchange position by specific currency. The system of internal limits allows for a comprehensive and adequate management of the currency risk exposure based on the principles adopted by the Bank.

In compliance with the NBU requirements, the Bank sets currency risk limits and sublimits for its units for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant foreign exchange rate fluctuations.

Table 33.1. Currency risk analysis

(in thousands of Ukrainian hryvnias)

Line	Currency	31/12/2020			31/12/2019			
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Financial derivatives	Net position
1	2	3	4	6	7	8	9	10
1	USD	1,296,451	1,314,414	(17,963)	929,279	955,188	(1,098)	(27,007)
2	EUR	638,013	669,050	(31,037)	358,973	378,102	-	(19,129)
3	GBP	4,292	4,411	(119)	4,689	1,220	-	3,469
4	Other	17,908	14,100	3,808	22,399	12,368	1,095	11,126
5	**Total**	1,956,664	2,001,975	(45,311)	**1,315,340**	**1,346,878**	**(3)**	**(31,541)**

Table 33.2. Sensitivity of net profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(in thousands of Ukrainian hryvnias)

Line	Item	Weighted average FX rate at 31/12/2020		Weighted average FX rate at 31/12/2019	
		effect on profit/(loss)	effect on equity	effect on profit/(loss)	effect on equity
1	2	3	3	3	6
1	USD strengthening by 20 %	(3,425)	(3,425)	(5,182)	(5,182)
2	USD weakening by 20 %	3,425	3,425	5,182	5,182
3	EUR strengthening by 20 %	(5,501)	(5,501)	(3,826)	(3,826)
4	EUR weakening by 20%	5,501	5,501	3,826	3,826
5	GBP strengthening by 20%	(21)	(21)	694	694
6	GBP weakening by 20%	21	21	(694)	(694)

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Weighted average FX rate at 31/12/2020**		**Weighted average FX rate at 31/12/2019**	
		effect on profit/(loss)	**effect on equity**	**effect on profit/(loss)**	**effect on equity**
1	**2**	**3**	**3**	**3**	**6**
7	Strengthening of other currencies by 20%	722	722	2,006	2,006
8	Weakening of other currencies by 20%	(722)	(722)	(2,006)	(2,006)

Interest rate risk in the banking book

Interest rate risk in the banking is the probability of losses or additional losses or loss of planned income due to the impact of adverse changes in interest rates on the banking book. The interest rate risk of the banking book affects the economic value of the bank's capital and the bank's net interest income.

The Bank's interest rate risk management process takes place using the following internal documents:

- Interest rate risk management policy of the banking book of JSC "PRAVEX BANK", approved by the decisions of the competent corporate bodies;

- Rules for assessment and control of the interest rate risk of the banking book of JSC PRAVEX BANK, approved by the decisions of the competent corporate bodies.

Table 33.3. General analysis of the interest rate risk

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets and other financial liabilities, were not included in the general analysis of the interest rate risk as at 31 December 2020 and 31 December 2019.

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than a year**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
31/12/2020						
1	Total financial assets	3,035,276	1,102,765	776,103	1,261,894	6,176,038
2	Total financial liabilities	4,937,944	410,334	32,021	47,627	5,427,926
3	Net interest rate gap at the end of the period	(1,902,668)	692,431	744,082	1,214,267	748,112
31/12/2019						
4	Total financial assets	2,555,264	633,863	884,868	400,802	4,474,797
5	Total financial liabilities	2,900,412	693,229	35,686	8,977	3,638,304
6	Net interest rate gap at the end of the period	(345,148)	(59,366)	849,182	391,825	836,493

Table 33.4. Monitoring of interest rates on financial instruments;

(%)

Line	Item	31/12/2020				31/12/2019			
		UAH	USD	EUR	other	UAH	USD	EUR	other
1	2	3	4	5	6	7	8	9	10
Assets									
1	Cash and cash equivalents	-	-	-	-	-	-	-	-
2	Loans and advances to banks	-	2.20	-	-	12.25	2.35	-	-
3	Loans and advances to customers	11.02	5.14	4.44	-	16.28	4.49	4.81	
4	Investments in securities at amortised cost	5.56	-	-	-	12.76	-	-	-
5	Investments in securities at FVTOCI	13.15	-	-	-	11.15	-	-	-
Liabilities									
6	Due to customers								
6.1	current accounts	0.71	0.14	0.07	-	1.31	0.41	0.17	-
6.2	term deposits	7.46	0.95	0.52	-	12.93	1.37	1.10	-
7	Debt securities issued by the Bank	-	-	-	-	-	-	-	-

Other price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the parent company. Limits are established with a breakdown by issuers and specific issues of securities. Limits are established for a specific period and are revised upon their end.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department concludes on the possibility to establish such limits. Then, the relevant materials are reviewed to the relevant committee of the parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

The Bank manages its price risk using the following internal documents:

— Guidelines on the prudential valuation of financial instruments at fair value of JSC "PRAVEX BANK" adopted by decisions of competent corporate bodies;
— Rules on the prudential valuation of financial instruments at fair value of JSC "PRAVEX BANK" adopted by decisions of competent corporate bodies;
— Financial portfolio management policies of JSC "PRAVEX BANK" approved by decisions of the competent corporate bodies.

Geographic risk

Geographic risk arises from peculiarities of a specific administrative and geographical area whose conditions differ from those in a country overall. The differences may refer to climate, national, political, legislative and other characteristics of the region that affect the borrower's position and are components of the credit risk.

Concentration of assets and liabilities by region is shown in tables 30.5 and 30.6.

Table 33.5. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2020

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
Assets					
1	Cash and cash equivalents	400,328	602,921	2,323	1,005,572
2	Loans and advances to banks	-	282,849	-	282,849
3	Loans and advances to customers	3,094,619	-	3,696	3,098,315
4	Investments in securities	2,794,875	-	-	2,794,875
5	Other financial assets	11,843	1,072	3	12,918
6	**Total assets**	**6,301,665**	**886,842**	**6,022**	**7,194,529**
Liabilities					
7	Due to banks	300,214	-	-	300,214
8	Due to customers	5,304,410	89,215	34 301	5,427,926
9	Debt securities issued by the Bank	1	-	-	1
10	Other financial liabilities	134,795	4,468	327	139,590
11	**Total liabilities**	**5,739,420**	**93,683**	**34 628**	**5,867,731**
12	Net balance sheet position	562,245	793,159	(28 606)	1,326,798

Table 33.6. Analysis of geographic concentration of financial assets and financial liabilities as at 31 December 2019

					(in thousands of Ukrainian hryvnias)
Line	**Item**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
Assets					
1	Cash and cash equivalents	502,155	282,925	2,528	787,608
2	Loans and advances to banks	64,499	312,826	-	377,325
3	Loans and advances to customers	1,435,797	-	-	1,435,797
4	Investments in securities	2,661,675	-	-	2,661,675
5	Other financial assets	25,853	212	-	26,065
6	**Total assets**	**4,689,979**	**595,963**	**2,528**	**5,288,470**
Liabilities					
7	Due to banks	214	-	-	214
8	Due to customers	3,574,198	54,307	9,799	3,638,304
9	Debt securities issued by the Bank	3,583	-	-	3,583
10	Other financial liabilities	158,374	4,391	1,003	163,768
11	**Total liabilities**	**3,736,369**	**58,698**	**10,802**	**3,805,869**
12	Net balance sheet position	953,610	537,265	(8,274)	1,482,601
13	Credit-related commitments	208,912	-	-	208,912

Liquidity risk

Liquidity risk is an existing or potential risk for revenues and capital that arises from the bank's failure to fulfil its obligations in due time without experiencing unacceptable losses.

The Treasury and Stock Market Department of the Head Financial Department exercises control over liquidity risk management. The liquidity risk management involves the ALCO, Risk Management Department, Head Financial Department, Head Retail Department, Head Corporate Department and the parent company.

Liquidity risk management principles

Liquidity is managed by the treasury and stock exchange department. Liquidity risk management is controlled by the Risk management department.

Current liquidity management includes (within an operational day):

- planning the Bank's current needs in liquid cash sufficient to cover planned and unplanned liquidity needs;
- ensuring to conduct banking operations in accordance with established limits, procedures and rules;
- ensuring compliance with the NBU requirements with regard to mandatory reserving ratios etc.

Liquidity is managed by the treasury and stock exchange department within an operational day. Liquidity risk management is controlled by the treasury and stock exchange department and Risk management department.
In order to mitigate the effect that the liquidity risk has on the Bank, the risk management department takes the following actions:

- conducts a daily analysis of high-quality liquid assets (HQLA) and their trends;
- every day or every ten days, performs calculations of the NBU liquidity ratios, such as N6 and LCR in all currencies and foreign-currency LCRs;
- calculation of the new NSFR indicator, the limit for which was set by the NBU from April 1, 2021, was successfully implemented;
- contrsol internal concentration limits established by respective documents on a daily bass;
- ensures respective reporting and monitoring.

Long-term liquidity is managed by the treasury and stock exchange department and Risk management department.

To minimize the impact of liquidity risk on the Bank, the Risk management department performs the following actions:

- regularly updates internal documents on liquidity risk;
- monitors high-quality liquid assets on a daily basis;
- conducts monthly GAP-analysis based on contractual cash flows;
- assesses liquidity risk on a monthly / daily basis by calculating LCR and NSFR;
- monitors the level of risk appetites and limits set by the Bank on a monthly basis and signals the need for an escalation process;
- conducts a stress test at least once a quarter;
- analyzes new products and services in terms of liquidity risk;

- prepares timely and complete liquidity risk reporting for the Bank's corporate bodies.

Liquidity risk management is controlled by the the treasury and stock exchange department of the CFO. Liquidity is managed with the participation of the ALCO, the Risk management department, the CFO, the Main retail department, the Corporate business bepartment and the Parent Company.

A liquidity crisis can be triggered by a market situation or any specific banking situation; as far as duration, it can be classified as temporary (for a few days) or long-term. Liquidity crisis management caused by a deterioration of the Bank's financial position is set out in the Contingency Liquidity Plan (CLP).
The Contingency Liquidity Plan ensures:

- identification and continuous monitoring of early alert signals, determining procedures to be implemented when the lack of liquidity becomes evident;
- legalisation of actions of managers responsible for managing liquidity in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- preparing a clear list of immediate measures and intervention to resolve the crisis.

The liquidity risk management is carried out in accordance with the following internal documents:

— The liquidity risk management policy approved by decisions of the competent corporate bodies;
— Procedures for implementation of liquidity risk management as approved by decisions of the competent corporate bodies.

Table 33.7. Analysis of financial liabilities by maturities as at 31 December 2020

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2020 are as follows:

						(in thousands of Ukrainian hryvnias)
Line	**Item**	**On demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
1	Due to banks	214	300,000	-	-	300,214
2	Due to customers	4,938,945	234,127	220,458	49,357	5,442,887
2.1	due to individuals	2,038,411	151,000	103,881	7,671	2,300,963
2.2	other	2,900,534	83,127	116,577	41,686	3,141,924
3	Debt securities issued by the Bank	1	-	-	-	1
4	Other financial liabilities	140,364	7,315	23,486	23,218	194,383
5	Financial guarantees	-	-	1,743	-	1,743
6	Other credit-related commitments	2,361	-	153,743	167,472	323,576
7	Total potential future payments under financial liabilities	5,081,885	541,442	399,430	240,047	6,262,804

Table 33.8. Analysis of financial liabilities by maturities as at 31 December 2019

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2019 are as follows:

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	214	-	-	-	214
2	Due to customers	2,902,718	443,790	295,242	9,072	3,650,822
2.1	due to individuals	1,460,167	227,940	192,446	9,072	1,889,625
2.2	other	1,442,551	215,850	102,796	-	1,761,197
3	Debt securities issued by the Bank	3,583	-	-	-	3,583
4	Other financial liabilities	111,964	5,580	21,659	24,565	163,768
5	Financial guarantees	-	26,371	-	-	26,371
6	Other credit-related commitments	-	77,809	123,335	7,768	208,912
7	Total potential future payments under financial liabilities	3,018,479	553,550	440,236	41,405	4,053,670

Table 33.9. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	1,005,572	-	-	-	-	1,005,572
2	Loans and advances to banks	282,849	-	-	-	-	282,849
3	Loans and advances to customers	830,803	240,548	765,069	1,037,849	224,046	3,098,315
4	Investments in securities	1,921,624	147,903	725,348	-	-	2,794,875
5	Other financial assets	12,444	474	-	-	-	12,918
6	**Total financial assets**	**4,053,292**	**388,925**	**1,490,417**	**1,037,849**	**224,046**	**7,194,529**
Liabilities							
7	Due from banks	214	300,000	-	-	-	300,214
8	Due to customers	4,937,944	230,641	211,714	47,627	-	5,427,926
9	Debt securities issued by the Bank	1	-	-	-	-	1
10	Other financial liabilities	87,748	5,425	23,198	23,219	-	139,590
11	**Total financial liabilities**	**5,025,907**	**536,066**	**234,912**	**70,846**	**-**	**5,867,731**
12	**Net liquidity gap as at 31 December**	**(972,615)**	**(147,141)**	**1,255,505**	**967,003**	**224,046**	**1,326,798**
13	**Cumulative liquidity gap as at 31 December**	**(972,615)**	**(1,119,756)**	**135,749**	**1,102,752**	**1,326,798**	**-**

Table 33.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
Assets							
1	Cash and cash equivalents	787,608	-	-	-	-	787,608
2	Loans and advances to banks	377,325	-	-	-	-	377,325
3	Loans and advances to customers	123,354	192,686	718,954	351,284	49,519	1,435,797
4	Investments in securities	2,054,584	-	607,091	-	-	2,661,675
5	Other financial assets	23,244	2,821	-	-	-	26,065
6	**Total financial assets**	**3,366,115**	**195,507**	**1,326,045**	**351,284**	**49,519**	**5,288,470**
Liabilities							
7	Due from banks	214	-	-	-	-	214
8	Due to customers	2,900,411	438,731	290,185	8,977	-	3,638,304
9	Debt securities issued by the Bank	3,583	-	-	-	-	3,583
10	Other financial liabilities	111,964	5,580	21,659	24,565	-	163,768
11	**Total financial liabilities**	**3,016,172**	**444,311**	**311,844**	**33,542**	**-**	**3,805,869**
12	**Net liquidity gap as at 31 December**	**349,943**	**(248,804)**	**1,014,201**	**317,742**	**49,519**	**1,482,601**
13	**Cumulative liquidity gap as at 31 December**	**349,943**	**101,139**	**1,115,340**	**1,433,082**	**1,482,601**	**-**

Operational risk

The Bank defines operational risk as the likelihood of losses or additional losses or shortfall of planned revenue due to deficiencies or errors in the organisation internal processes, intentional or unintentional actions of bank employees or other persons, malfunctions in the IT systems of the bank or due to external factors. The definition applies to the legal risk; however, strategic and reputation risks are not taken into account.

Management activities cover:
— identification and implementation of actions aimed at mitigating the risk and its transfer, in accordance with the position regarding risks identified by the Board, as well as with regard to the objectives of capital placement;
— streamlining and optimising costs/benefits of the insurance return and other forms of risk transfer accepted by the ISP Group.

The key functions of operational risk management are:

— conscious acceptance of operational risk, which is inextricably linked to the Bank's business;
— mitigation of operational risk due to actions taken to appropriate risk factors;
— risk transfer through insurance or other special financial instruments (Alternative Risk Transfer).

The Bank manages its operational risk using the following internal documents:

— Operational Risk Management Policy of JSC “PRAVEX BANK” adopted by decisions of the component corporate bodies;
— Policy on Key Operational Risk Indicators of JSC “PRAVEX BANK” adopted by decisions of the component corporate bodies;

— Operational Risk Management Policy of JSC "PRAVEX BANK" adopted by decisions of the component corporate bodies.

— Methodology of management of key indicators of operational risk of JSC "PRAVEX BANK", approved by decisions of competent corporate bodies;

— Operational risk management process of JSC PRAVEX BANK, approved by decisions of competent corporate bodies.

Note 34. Capital management

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

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

— highly profitable use of own cash;

— covering all possible risks assumed by the Bank;

— optimising assets and liabilities structure by ageing and deposits.

As at 31 December 2020, according to the NBU requirements, banks must comply with the capital adequacy ratio at the level of 10% and with the common equity adequacy ratio at the level of 7% for risk-weighted assets calculated based on the NBU regulations.

As at 31 December 2020 and 31 December 2019, the Bank complied with regulatory capital adequacy ratio (N2) at 35.65% (31 December 2019: 73.01%) and common equity adequacy ratio (N3) at 34.11% (31 December 2019: 69.68%).

Table 34.1. Structure of regulatory capital calculated according to the NBU requirements

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**31/12/2020**	**31/12/2019**
1	**2**	**3**	**4**
1	**Common equity**	**1,294,961**	**1,486,647**
2	Share capital	979,090	979,090
3	Share premium	4,600,449	4,600,449
4	Total reserves under Ukrainian legislation	1,332	1,332
5	Intangible assets	(490,098)	(442,229)
6	Amortisation of other intangible assets	384,057	353,488
7	Capital investments in intangible assets	(26,189)	(12,722)
8	Uncovered losses of past years	(3,889,287)	(3,775,081)
9	Result of the current year (loss)	(264,393)	(217,680)
10	**Additional capital**	**58,521**	**70,938**
11	Result on PP&E revaluation	58,521	70,938
12	**Redeployment**	**(3)**	**(3)**
13	Carrying amount of securities that are not traded on stock exchanges carried at FV	(3)	(3)
14	**Total regulatory capital**	**1,353,479**	**1,557,582**

Note 35. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or significant reduction of transactions or carrying on transactions on unfavourable conditions. Fair value represents credit quality of a financial instrument, as it includes the risk of counterparty's default.

Fair value of financial instruments is determined using quoted prices obtained from financial markets for instruments quoted in an active market or by internal measurement methods for other financial instruments. Market is considered active when quoted prices are readily and regularly available (from a stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions.

When the market does not operate on a regular basis, i.e. it has no sufficient volatility and constant number of transactions, whilst the difference between the purchase price and the selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing the price of a hypothetic commercial transaction on an arm's length basis as at the measurement date.

Table 35.1. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Fair value by different valuation techniques as at 31 December 2020			Total fair value	Total carrying amount
		Quoted market price (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using unobservable inputs (Level 3)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	1,005,572	-	1,005,572	1,005,572
2	Loans and advances to banks	-	282,849	-	282,849	282,849
3	Loans and advances to customers	-	-	3,098,315	3,098,315	3,098,315
4	Investments in securities	-	2,794,872	3	2,794,875	2,794,875
5	Other financial assets		-	12,918	12,918	12,918
	FINANCIAL LIABILITIES					
6	Due to banks	-	300,214	-	300,214	300,214
7	Due to customers	-	5,427,926	-	5,427,926	5,427,926
8	Debt securities issued by the Bank	-	1	-	1	1
9	Other financial liabilities	-	-	139,590	139,590	139,590

Table 35.2. Analysis of financial instruments at amortised cost and at fair value through other comprehensive income by hierarchy levels as at 31 December 2019

						(in thousands of Ukrainian hryvnias)
Li-ne	**Item**	**Fair value by different valuation techniques as at 31 December 2019**			**Total fair value**	**Total carrying amount**
		Quoted market price (Level 1)	**Valuation technique using observable inputs (Level 2)**	**Valuation technique using unobservable inputs (Level 3)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	787,608	-	787,608	787,608
2	Loans and advances to banks	-	377,325	-	377,325	377,325
3	Loans and advances to customers	-	-	1,451,685	1,451,685	1,435,797
4	Investments in securities	-	2,661,672	3	2,661,675	2,661,675
5	Other financial assets		-	26,065	26,065	26,065
	FINANCIAL LIABILITIES					
6	Due to banks	-	214	-	214	214
7	Due to customers	-	3,363, 342	-	3,636, 342	3,638,304
8	Debt securities issued by the Bank	-	3,583	-	3,583	3,583
9	Other financial liabilities	-	-	163,768	163,768	163,768

The Bank uses the following hierarchy when measuring and disclosing the fair value of financial instruments based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that have a significant effect on the reported fair value and are observable on the market, either directly or indirectly;

Level 3: inputs that have a significant effect on the reported fair value and are not based on observable market data (unobservable inputs).

Financial instruments for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a maturity of less than one month from the reporting date, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable-rate financial instruments, loans issued or deposits placed less than one month before the reporting date.

Fixed-income financial instruments

The fair value of fixed-income financial assets and liabilities carried at amortised cost is measured by comparing market interest rates as at their recognition to current market rates offered for similar financial instruments. The fair value of loans and deposits is calculated by discounted cash flows model using discount rates for assets and liabilities with a similar credit risk and maturity.

For quoted shares and debt securities, the fair values are calculated based on quoted market prices in active markets for identical assets or liabilities. Where shares and debt securities unquoted in active markets, a discounted cash flow model is used by reference to the yield to maturity for similar financial instruments quoted in active financial markets.

Table 35.3. Significant unobservable inputs used in measuring instruments categorised within Level 3 of the fair value hierarchy

						(in thousands of Ukrainian hryvnias)
Year	**Type of instrument**	**Fair value**	**Valuation model**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Fair value sensitivity to unobservable inputs**
1	**2**	**3**	**4**	**5**	**6**	**7**
2020	Loans and advances to customers	3,098,315	Discounting of cash flows	Discount rate	Currency: UAH 10.46 – 31.74% Other currencies: 1.4 – 7%	Significant increase of discount rate results in lower values of fair value
2019	Loans and advances to customers	1,451,685	Discounting of cash flows	Discount rate	Currency: UAH 12.83 – 30.81% Other currencies: 3.70 – 14.88%	Significant increase of discount rate results in lower values of fair value

Note 36. Presentation of financial instruments by measurement categories

Table 36.1. Financial assets by measurement categories as at 31 December 2020

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	1,005,572	-	1,005,572
2	Loans and advances to banks	282,849	-	282,849
3	Loans and advances to customers:	3,098,315	-	3,098,315
3.1	corporate loans	2,360,871	-	2,360,871
3.2	mortgages of individuals	297,919	-	297,919
3.3	retail loans	485,030	-	485,030
3.4	other loans to individuals	145	-	145
3.5	Provision for loan impairment	(45,650)	-	(45,650)
4	Investments in securities	1,197,822	1,600,394	2,798,216
4.1	Investments in securities at AC	1,197,822	-	1,197,822
4.2	Investments in securities at FVTOCI	-	1,600,391	1,600,391
4.3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	-	34	34
4.4	Provision for impairment of securities at FVTOCI	-	(31)	(31)
5	Other financial assets:	12,918		12,918
5.1	Accounts receivable from transactions with customers	12,773	-	12,773

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
5.2	Amounts due on accrued income from cash and settlement services and other accrued income	2,372	-	2,372
5.3	Accounts receivable on credit and debit card transactions	8,266	-	8,266
5.4	Other assets	20	-	20
5.5	Provision for impairment	(10,513)	-	(10,513)
6	**Total financial assets**	5,597,476	1,600,394	7,197,870

Table 36.2. Financial assets by measurement categories as at 31 December 2019

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Loans and receivables at AC**	**Assets at FVTOCI**	**Total**
1	**2**	**3**	**4**	**5**
1	Cash and cash equivalents	787,608	-	787,608
2	Loans and advances to banks	377,325	-	377,325
3	Loans and advances to customers:	1,435,797	-	1,435,797
3.1	corporate loans	1,095,892	-	1,095,892
3.2	mortgages of individuals	89,348	-	89,348
3.3	retail loans	267,789	-	267,789
3.4	other loans to individuals	24	-	24
3.5	Provision for loan impairment	(17,256)	-	(17,256)
4	Investments in securities	1,352,197	1,309,478	2,661,675
4.1	Investments in securities at AC	1,352,197	-	1,352,197
4.2	Investments in securities at FVTOCI	-	1,309,475	1,309,475
4.3	Shares of enterprises and other variable-income securities that are not traded on stock exchanges and are recognised at FVTOCI	-	34	34
4.4	Provision for impairment of securities at FVTOCI	-	(31)	(31)
5	Other financial assets:	26,065		26,065
5.1	Accounts receivable from transactions with customers	10,777	-	10,777
5.2	Amounts due on accrued income from cash and settlement services and other accrued income	2,454	-	2,454
5.3	Accounts receivable on credit and debit card transactions	22,879	-	22,879
5.4	Accounts receivable from transactions with banks	932	-	932
5.5	Other assets	169	-	169
5.6	Provision for impairment	(11,146)	-	(11,146)
6	**Total financial assets**	**3,978,992**	**1,309,478**	**5,288,470**

Note 37. Related-party transactions

Assets and liabilities valuation techniques applied upon recognition of transactions with related parties do not differ from generally accepted methods.
Agreements with the Bank's related parties do not envisage more favourable terms than agreements concluded with other parties.
The Bank's transactions with related parties for the year ended 31 December 2020 had no material effect on the Bank's financial results.

Table 37.1. Balances on related-party transactions as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	106,875	-	on demand	2,625	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	6	-	on demand	-	-	-
3	Loans and advances to banks	-	-	-	282,864	1,9-2,5%	2 - 31 days	-	-	-	-	-	-
4	Provision for impairment of loans and advances to banks	-	-	-	15	-	2 - 31 days	-	-	-	-	-	-
5	Other financial assets	20	-	2 - 31 days	-	-	-	-	-	-	-	-	-
6	Other non-financial assets	3,344	-	on demand	-	-	-	1,014	-	on demand	-	-	-
7	Other financial liabilities	-	-	-	-	-	-	14,876	-	on demand	-	-	-
	Key management personnel												
8	Loans and advances to customers	208	12%	2 days – 5 years	-	-	-	-	-	-	-	-	-
9	Loan loss provisions	1	-	more than 5 years	-	-	-	-	-	-	-	-	-
10	Due to customers	627	0 - 9%	on demand - less than 183 days	2,271	0.01%	on demand - less than 31 days	3,515	0.01%	on demand - less than 31 days	80	-	on demand

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
11	Other financial liabilities	5,890	-	on demand - less than 2 years	-	-	-	-	-	-	-	-	-
12	Other non-financial liabilities	5,540	-	on demand - less than 31 days	-		-	-	-	-	-	-	-
	Other related parties												
13	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	2 ,143	-	on demand
14	Other non-financial liabilities	-	-	-	-	-	-	111	-	on demand	-	-	-

Related parties comprise entities under common control, members of the Supervisory Board, key management personnel and their immediate family members, companies that are controlled or significantly influenced by shareholders, key management personnel or their close family members.

Table 37.2. Income and expenses on related-party transactions as at 31 December 2020 and for the year then ended

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel	Other related parties
1	2	3	4	5
1	Interest income	1,309	41	-
2	Interest expenses	-	(44)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	(5)	(3)	-
4	Net profit from foreign exchange	7,995	-	-
5	Net gain/(loss) from foreign currency translation	150,026	(796)	(870)
6	Fee and commission income	255	12	-
7	Fee and commission expenses	(1,998)	-	(14)
8	Employee benefits expense	-	(23,136)	-
9	Othe roperating income	-	-	1,121
10	Other administrative and operating expenses	(25,664)	(7,874)	(772)

Table 37.3. Loans granted to and repaid by related parties during 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	*2*	*3*	*4*
1	Loans granted to related parties	(10,879,603)	(9)
2	Loans repaid by related parties	10,964,597	-

Table 37.4. Other rights and obligations on related-party transactions as at 31 December 2020

(in thousands of Ukrainian hryvnias)

Line	Item	Major participants (shareholders) of the Bank	Key management personnel
1	2	3	4
1	Guarantees received	6,948	-

Table 37.5. Balances on related-party transactions as at 31 December 2019

(in thousands of Ukrainian hryvnias)

Line	Item	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Denominated in foreign currencies	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major participants (shareholders) of the Bank												
1	Cash and cash equivalents	-	-	-	-	-	-	87,064	-	on demand	3,063	-	on demand
2	Provisions for cash on correspondent accounts with other banks	-	-	-	-	-	-	3	-	on demand	-	-	-
3	Loans and advances to banks	-	-	-	312,838	2.25 - 2.62%	2 - 31 days	-	-	-	-	-	-
4	Provision for impairment of loans and advances to banks	-	-	-	-	-	-	-	-	-	-	-	-
5	Other financial assets	20	-	2 - 31 days	-	-		2	-	Overnight or 1 day	-	-	-
6	Other non-financial assets	366	-	on demand	-	-	-	-	-	-	-	-	-
7	Other financial liabilities	3,581	-	on demand - less than 31 days	-	-	-	771	-	on demand	-	-	-
8	Other non-financial liabilities	-	-	-	-	-	-	12,814	-	on demand	-	-	-
	Key management personnel												
9	Loans and advances to customers	691	12-13%	on demand - more than 5 years	-								
10	Loan loss provisions	6	-	more than 5 years	-								
11	Due to customers	862	0 - 11%	on demand	1,066	0 - 0.5%	on demand	389	0-0.25%	on demand	-	-	-

(in thousands of Ukrainian hryvnias)

Line	**Item**	**UAH**	**Interest rate**	**Maturity**	**USD**	**Interest rate**	**Maturity**	**EUR**	**Interest rate**	**Maturity**	**Denominated in foreign currencies**	**Interest rate**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
12	Other financial liabilities	5,391	-	on demand - less than 5 year	-	-	-	-	-	-	-	-	-
13	Other non-financial liabilities	410	-	on demand - less than 31 days	-		-						
	Other related parties												
14	Cash and cash equivalents	-	-	-	-	-	-	-	-	-	2,304	-	on demand

Table 37.6. Income and expenses on related-party transactions as at 31 December 2019 and for the year then ended

				(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**	**Other related parties**
1	**2**	**3**	**4**	**5**
1	Interest income	6,031	68	-
2	Interest expenses	-	(94)	-
3	Net (increase) in provisions for impairment of loans and advances to customers, and due from banks	(15)	(6)	-
4	Net profit from foreign exchange	966	-	-
5	Net gain/(loss) from foreign currency translation	(58,631)	113	(454)
6	Fee and commission income	262	9	-
7	Fee and commission expenses	(2,090)	-	(17)
8	Employee benefits expense	-	(23,644)	-
9	Other administrative and operating expenses	(26,011)	(8,668)	(814)

Table 37.7. Loans granted to and repaid by related parties during 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**
1	***2***	***3***	***4***
1	Loans granted to related parties	(20,371,706)	-
2	Loans repaid by related parties	20,151,916	5

Table 37.8. Other rights and obligations on related-party transactions as at 31 December 2019

			(in thousands of Ukrainian hryvnias)
Line	**Item**	**Major participants (shareholders) of the Bank**	**Key management personnel**
1	**2**	**3**	**4**
1	Guarantees received	8,092	1,056
2	Currency before spot transactions	2,547	-

Table 37.9. Remuneration to key management personnel

(in thousands of Ukrainian hryvnias)					
Line	**Item**	**expenses for 2020**	**accrued liabilities as at 31/12/2020**	**expenses for 2019**	**Accrued liabilities as at 31/12/2019**
1	**2**	**3**	**4**	**5**	**6**
1	Current employee benefits	23,136	6,439	22,464	403
2	Termination benefits	-	-	1,180	-

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

Note 38. Subsequent events

There were no events after 31 December 2020 that required changes to the financial statements.

Note 39. Additional disclosures in accordance with the applicable laws of Ukraine

To comply with the Resolution of the National Securities and Stock Market Commission no. 160 dated 12 February 2013 (as amended), the Bank discloses the following information as at 31 December 2020:

– As at 31 December 2020, the Bank's equity amounted to UAH 1,719,698 thousand, including:

  - share capital – UAH 1,048,726 thousand;
  - share premium/discount – UAH 4,600,754 thousand;
  - accumulated deficit – UAH 4,142,030 thousand;
  - revaluation reserves – UAH 210,916 thousand
  - reserves and other funds – UAH 1,332 thousand.

  The Bank's net assets value as at 31 December 2020 exceeds the share capital, which complies with Article 155 of the Civil Code of Ukraine.

  List of the shareholders that own 5% shares and more as at 31 December 2020 is as follows: Intesa Sanpaolo S.p.A., – 10121, Italy – Turin, Piazza San Carlo, 156 is the sole shareholder of 100% shares in the Bank (1,686,585,731 of ordinary shares and 1,500,000 of preference registered shares) and the owner of a substantial shareholding.

- The Bank's share capital as at 31 December 2019 was formed and paid in full exclusively in cash in the amount of UAH 979,090 thousand, except for the effect of applying IAS 29 Financial Reporting in Hyperinflationary Economies, as supported by the accounting records and bank documents available.

  The effect of applying the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies in previous periods resulted in an increase of the share capital for financial reporting purposes by UAH 69,636 thousand.

- Cash contributions to the share capital in the amount of UAH 979,090 thousand were made during the issue of shares by the Bank in 1993-2018. During 2013-2020, the share capital was increased by:
  - UAH 7,250,000 (securities sale and purchase agreement No. 1/13 dated 24 May 2013; payment order No. 1 dated 24 May 2013);
  - UAH 1,295,430 (securities sale and purchase agreement No. 1/15 dated 29 January 2015; payment order no. 1 dated 29 January 2015);
  - UAH 304,906 (securities sale and purchase agreement No. 2/15 dated 6 February 2015; payment order no. 1 dated 6 February 2015);
  - UAH 148,074 (securities sale and purchase agreement No. 3/15 dated 9 February 2015; payment order no. 150400006 dated 9 February 2015);
  - UAH 1,122,242 (securities sale and purchase agreement No. 4/15 dated 18 February 2015; payment order no. 1 dated 18 February 2015);
  - UAH 1,654,044 (securities sale and purchase agreement No. 5/15 dated 19 February 2015; payment order no. 1 dated 19 February 2015);
  - UAH 1,275,304 (securities sale and purchase agreement No. 6/15 dated 20 February 2015; payment order no. 1 dated 20 February 2015);
  - UAH 3,971,569 and 72 kopeks (securities sale and purchase agreement no. 7/15 dated 10 September 2015; payment order no. 1 dated 10 September 2015);
  - UAH 3,318,928 and 78 kopeks (securities sale and purchase agreement no. 8/15 dated 30 September 2015; payment order no. 1 dated 30 September 2015);
  - UAH 6,110,063 and 36 kopeks (securities sale and purchase agreement no. 9/15 dated 9 October 2015; payment order no. 1 dated 9 October 2015);
  - UAH 10,719,162 and 12 kopecks payment order no. 1 (securities sale and purchase agreement no. 1/18 dated 25 January 2018, payment order no. 10 dated 25 January 2018).

  Cash contributed for the formation of the Bank's share capital are used for statutory activities.

As at 31 December 2020, the Bank established that it has no overdue tax liabilities (existence/absence of tax debt), no outstanding duties or penalties for violating the financial services legislation, including securities market services.

Authorised for issue and signed by

Chairman of the Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

DATE: **17 March 2021**

prepared by M.I.Voloshyna
(044) 251-02-43

28, Fizkultury St.
Kyiv, 03150
Ukraine

T: + 380 (44) 284 18 65
F: + 380 (44) 284 18 66

info@bakertilly.ua
www.bakertilly.ua

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Oversight Board of Joint Stock Company "PRAVEX BANK"
To the National Bank of Ukraine
To the National Securities and Stock Market Commission

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of JOINT STOCK COMPANY "PRAVEX BANK" (hereinafter – the Bank) that include:

- Statement of Financial Position (Balance Sheet), as at 31 December 2020;
- Statement of Profit or Loss and Other Comprehensive Income (Statement of Financial Results) for the year ended 31 December 2020;
- Statement of Changes in Equity (Statement of Equity) for the year ended 31 December 2020;
- Statement of Cash Flows for the year ended 31 December 2020 (direct method);
- Notes to Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2020, as well as its financial results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" with regard to the preparation of financial statements.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibility in accordance with these standards is set out in the *Auditor's Responsibility for the Audit of Financial Statements* of our report. We are independent to the Bank in accordance with the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Accountants (*IESBA Code*) and ethical requirements applicable to our audit of financial statements in Ukraine, and we have met other ethical obligations in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We refer to Note 2 of the financial statements, which reads that whilst the management believes that it is taking appropriate measures to support the Bank's sound operations in the current circumstances, such as the worsening global economic crisis and pandemic, the volatility of the national currency exchange rate and its subsequent devaluation may adversely affect performance and financial condition of the Bank, the nature and consequences of which are currently impossible to determine. Our opinion on the matter has not been modified.

Key audit matters that include the most significant assessed risks of material misstatement, as well as the assessed risks of material misstatement due to fraud

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 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. We have identified that the matters below are key audit matters that should be presented in our report.

Key audit matters	How our audit considered the key audit matters
Provision for impairment of loans and advances to customers, credit-related commitments, balances on correspondent accounts in other banks – UAH 65,078 thousand.	
Refer to Notes 6, 7, 8 and 19	
We have focused our attention on this matter as a key audit matter due to the materiality of the balances on items "Loans and advances to customers", "Loans and advances to banks" and the subjective nature of judgements used in calculating the impairment. Provision for impairment losses reflect the management's estimate of expected losses based on the portfolios of loans and advances to customers at the reporting date. The measurement of expected credit losses of a financial instrument is carried out in a way that reflects: an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, time value of money and all reasonable and supportable information about past events, current conditions and forecasts of future conditions by reference to all reasonable and supportable information, including that which is forward-looking. Identifying whether there has been a significant increase in credit risk, impairment and determining the recoverable amount involves certain assumptions and analysis of different factors, including the borrower's financial position, expected future cash flows, observable market prices, fair value of collateral. The use of different models and assumptions can lead to different outcomes in provisioning for impairment losses on loans and advances to customers.	Our procedures included, among others, the following: - Familiarising with the internal controls system implemented by the management personnel with a focus on the calculation of provisions for impairment losses on loans and advances to customers both on an individual and collective basis. - We have also independently evaluated the appropriateness of the management's judgements regarding the calculation methodology and inputs about past events, current conditions and forward-looking information to calculate the probability of default, as well as the recoverable amounts and collateral value. - We have conducted a selective test of assumptions underlying the calculation of impairment and its quantification, including the analysis of the borrowers' financial position, forecasts about future cash flows and collateral measurement. For loan impairment provisions that showed no individual indications of impairment, we tested the models and inputs used in those models, as well as their mathematical accuracy. We identified no material mismatches as a result of these tests.

Other information

The management is responsible for the other information. Other information comprises the information included in the management report for 2020, which includes the corporate governance report as a separate section (but does not constitute the financial statements and our auditor's report thereon), which we obtained before the date of this auditor's report, and the annual information of the issuer of securities for 2020, which we expect to receive after that date.

Our opinion on the financial statements does not cover the other information and we do not provide any form of assurance conclusion in respect of this other information.

In connection with our audit of the financial statements, it is our responsibility to read the other information identified above 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 in respect of the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual information of the securities issuer for 2020, if we conclude that there is a material misstatement, we are required to communicate the matter to those charged with governance.

Responsibility of the management and those charged with governance for financial statements

The management is responsible for the preparation and fair presentation of the financial statements according to IFRS and the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" with regard to the preparation of the financial statements and for such internal controls as the management determines 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, the 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 the 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 supervising the process of financial reporting by the Bank.

Auditor's responsibility for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, in their entirety, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report with our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to affect the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. In addition, we:

- identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that would be 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 measures 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 controls;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

- conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. 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

Other information required by Article 14 of the Law of Ukraine "On the Audit of Financial Statements and Auditing Activities"

In accordance with Article 14 of the Law of Ukraine "On the Audit of Financial Statements and Auditing Activities", we present in our independent auditor's report the following information required in addition to the International Standards on Auditing:

Audit objective and duration

We were appointed as auditors by decision of the Supervisory Board of the Bank dated 30 July 2020 (protocol no. 8_20.7) to conduct a statutory audit of the Bank's financial statements for the year ended 31 December 2020. The period of total uninterrupted statutory audit of the Bank's financial statements, including the previous renewals and reappointments, is 1 year.

Non-audit services and auditor independence

We confirm that, to the best of our knowledge and belief, we have not provided any illegal non-audit services to the Bank or to any of its controlled entities in accordance with part 4 Article 6 of the Law of Ukraine "On the Audit of Financial Statements and Audit Activities". We, including our key audit partner, have been independent in relation to the Bank as part of the audit.

We will provide to the Bank the following services, other than statutory audit services, that were not disclosed in the financial statements or in the Management Report: assessment of the quality of the Bank's assets and collateral adequacy on loans as at 1 January 2020 within the requirements of the Terms of Reference to assess the resilience of Ukrainian banks and its banking system approved by Resolution of the Board of the National Bank of Ukraine No. 141 dated 22 December 2017.

Consistency of the auditor's report with the additional report for the Audit Committee

We confirm that our audit opinion on the financial statements set out in this report is consistent with the additional report for the Bank's Supervisory Board.

Consistency of the management report with the financial statements

Based on the results of work performed during the audit and taking into account the obtained knowledge and understanding of the Bank's activities and operating environment, in all material aspects:

- the management report of JSC "PRAVEX BANK" for 2020, which includes the corporate governance report as a separate section, is prepared in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", "Guidance on the Procedure for the Preparation and Publication of Financial Statements in Ukrainian Banks" approved by Resolution of the NBU No. 373 dated 24 October 2011 and other applicable laws and regulations, and the information presented there is consistent with the financial statements;

- we identified no material misstatements in the management report.

Explanations of the audit effectiveness in identifying violations, in particular, those related to fraud

The purpose of our audit with regard to fraud was to identify and assess risks of material misstatements due to fraud, to obtain sufficient appropriate audit evidence on the assessed risks of material misstatement due to fraud through appropriate audit procedures in response to those risks and to take necessary measures regarding the factual and suspected cases of fraud identified during the audit. However, the main responsibility for preventing and identifying fraud lies with those charged with governance and the Bank's management.

Identification and assessment of potential risks related to violations	**Actions responsive of assessed risks**

In identifying and assessing the risks of material misstatement with regard to identifying violations, in particular, those related to fraud and non-compliance with laws and regulations, our procedures included, among others, the following:
- inquiries to the management and those charged with governance, including the receipt and review of supporting documentation on the Bank's policies and procedures with regard to:
  - identification, evaluation and compliance with laws and regulations and availability of records about any instances of their violation;
  - identification and response to risks of fraud and availability of records about any factual, suspected or anticipated fraud; and
  - internal controls implemented to reduce risks related to fraud or non-compliance with laws and regulations.
- discussions between audit team members to determine under which circumstances and at what stage may the Bank's financial statements be most vulnerable to material misstatement due to fraud, including fraud techniques. As part of this discussion, we identified areas with potential risk as income recognition, management's negligence of controls; and
- obtaining an understanding of laws and regulations that apply to the Bank and constitute a regulatory framework for its operations. At the same time, special attention
	As a result of our risk identification and assessment procedures, we have not identified any matters related to the risk of fraud or non-compliance with laws and regulations that could be used as key audit matters.
	Our procedures in response to other identified risks, among others, included the following:
	- review of disclosures to financial statements and testing of supporting documentation in order to assess compliance with the applicable laws and regulations set out in this section;
	- inquiring from the management and those charged with governance and internal lawyers with regard to the existing and potential lawsuits and claims;
	- analytical procedures to detect any unusual or unexpected relationships that might point to risks of material misstatements due to fraud;
	- familiarisation with the minutes of meetings of those charged with governance and review of internal audit reports;
	- testing the compliance of accounting information and adjustments; assessment of whether judgements and decisions made by the management in determining accounting estimates indicate a bias; evaluation of the economic feasibility of significant transactions that are unusual or outside the ordinary course of business.
	We also communicated relevant identified laws and regulations and potential fraud risks to all members of the audit team and remained alert throughout the audit

Identification and assessment of potential risks related to violations	Actions responsive of assessed risks
was given to those laws and regulations that directly affected the financial statements or which had a fundamental impact on the Bank's operations. Key laws and regulations that we considered in this context included the Law of Ukraine "On Banks and Banking Activities" and regulations of the National Bank of Ukraine on licensing and prudential supervision, Law of Ukraine "On Securities and Stock Market" and applicable regulations of the National Securities and Stock Market Commission, Law of Ukraine "On Financial Services and State Regulation of the Financial Services Markets".	to any indications of fraud or non-compliance with laws and regulations.

Other matters

Based on the results of work performed during the audit and taking into account the obtained knowledge and understanding of the Bank's activities and operating environment, in all material aspects:

- the information illustrated in the corporate governance report as part of the Management Report of JSC "PRAVEX BANK" for 2020 in accordance with paragraphs 1-4 part 3 Article 40[1] of the Law of Ukraine "On Securities and Stock Market" was prepared in accordance with the Law of Ukraine "On Securities and Stock Market" and other applicable laws and regulations is consistent with the financial statements;

- in our opinion, the corporate governance report as part of the Management Report of JSC "PRAVEX BANK" for 2020, which is responsibility of the Bank's management, presents all the information required by paragraphs 5-9 part 3 Article 40[1] of the Law of Ukraine "On Securities and Stock Market".

Other laws and regulations

Reporting as required by the Law of Ukraine "On Banks and Banking Activities" and "Regulation on the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements to the National Bank of Ukraine" approved by the Resolution of the National Bank of Ukraine No. 90 dated 2 August 2020

According to the Law of Ukraine "On Banks and Banking Activities" and requirements of the Regulation on the Procedure for a Bank to Submit and Audit Report on the Findings of the Annual Audit of Financial Statements approved by the Regulation of the National Bank of Ukraine No. 90 dated 2 August 2020, the audit report shall also contain information (assessment) on:

1) the consistency (fair presentation) of information about the allocation of the bank's assets and liabilities by maturities in a file that contains figures from the statistical report A7X "Information about the structure of assets and liabilities by periods", which the bank prepares and submits to the National Bank of Ukraine, as at 1 January in the year after the reporting year;

2) the bank's compliance with regulations imposed by the National Bank of Ukraine with regard to:

- internal controls;
- internal audit;
- determining the credit risk exposure on asset-side banking transactions;
- identifying parties related to the bank and conducting transactions with them;
- adequacy of the bank's capital that should be determined by reference to the quality of the bank's assets;
- accounting.

The purpose of the audit was to express an opinion that the Bank's annual financial statements for 2020 present fairly, in all material aspects, the Bank's financial statements in accordance with the International Financial Reporting Standards.

Information presented in this report is the result of our procedures conducted as part of the audit of the Bank's financial statements for 2020. The specified information was obtained on the basis of selective testing to the extent necessary for planning and conducting audit procedures in accordance with the International Standards on Auditing.

This report is intended for the information of and use by the Bank's management and the National Bank of Ukraine and cannot be used by any other party. When reviewing this report, the limited nature (as mentioned above) of the procedures for assessing matters related to the Bank's activities, organisation of its accounting system and internal controls should be also taken into account.

In addition, it should be considered that the assessment criteria on those matters related to the Bank's operations, organisation of its accounting system and internal controls can be different from the criteria applied by the National Bank of Ukraine.

According to the results of our audit procedures within the audit of annual financial statements, we present information (assessment) on the matters above:

As a result of audit procedures within the annual audit, we identified no material discrepancies in the Bank's presentation with regard to the allocation of its assets and liabilities by maturities in a file that contains figures from the statistical report A7X "Information about the structure of assets and liabilities by periods", which the Bank prepares and submits to the National Bank of Ukraine, as at 1 January in the year after the reporting year, i.e. as at 1 January 2021.

The Bank's compliance with regulations imposed by the National Bank of Ukraine with regard to:

internal controls

As a result of audit procedures within the audit of annual financial statements, we found no evidence that the structure and internal controls of the Bank did not comply with the NBU regulations, in particular, with the Regulation of the National Bank of Ukraine No. 88 dated 2 July 2020 "On the Approval of the Regulation on Organising Internal Controls in the Banks of Ukraine and Banking Groups".

internal audit

In our opinion, at the time of the audit, the Bank's internal regulatory documents on internal audit procedures were in line with the NBU regulations, in particular, with the Resolution of the National Bank of Ukraine No. 311 dated 10 May 2016 "On the Approval of the Regulation on Organising the Internal Audit in Banks of Ukraine". Internal audit procedures are conducted in accordance with the Bank's internal regulations.

determining the credit risk exposure on asset-side banking transactions

The Bank calculated the credit risk amount as at the reporting date in accordance with the NBU regulations, including the Regulation on Determining the Credit Risk Exposure on Asset-side Banking Transactions approved by Resolution of the NBU Board No. 351 dated 30 June 2016 (hereinafter – NBU Resolution No. 351).

As a result of audit procedures within the audit of annual financial statements, we didn't identify material discrepancy in the Bank's credit risk calculation as at 31 December 2020.

identification of parties related to the Bank and related-party transactions

As a result of audit procedures, we did not find any evidence of non-compliance of the Bank's risk management system with regard to related-party transactions, procedures for identifying parties related to the Bank and related-party transactions with the NBU regulations. During our audit, we identified no violations of regulations with regard to related-party transactions.

adequacy of the Bank's capital that should be determined by reference to the quality of its assets

The Bank's share capital as at 31 December 2020 is adequate and accounts for UAH 1,048,726 thousand. According to the Bank, the Bank's share capital as at 31 December 2020 is UAH 1,353,479 thousand, which is consistent with the NBU regulations (refer to Note 34 "Capital management").

accounting

The Bank's accounting system is in line with the NBU regulations and the Bank's accounting policies.

The reporting required by "Requirements to an Audit Opinion Submitted to the National Securities and Stock Market Commission for Obtaining a Licence to Conduct Professional Activity on the Securities Market" approved by the Decision of the National Securities and Stock Market Commission No. 160 dated 12 February 2013

In accordance with the Requirements to an Audit Opinion Submitted to the National Securities and Stock Market Commission for Obtaining a Licence to Conduct Professional Activity on the Securities Market approved by the Decision of the National Securities and Stock Market Commission (hereinafter – NSSMC) No. 160 dated 12 February 2013, we present the following information and conclusions:

main information about the Bank

full name – JOINT-STOCK COMPANY "PRAVEX BANK"

legal entity's identification code in the Unified State Register of Enterprises and Organisations of Ukraine specified in the Unified State Register of Legal Entities and Individual Entrepreneurs and Public Organisations – 14360920

location – 9/2 Klovskyi Uzviz, Kyiv 01021, Ukraine

date of state registration – 27 October 2004

main types of activity – other types of monetary intermediation

date of changes to constituent documents – the Bank's Articles of Association as amended and approved by Shareholder's Decision dated 12 December 2019 (protocol no. 5/2019) as agreed by the NBU on 16 March 2020 and registered by the state registrar on 31 March 2020

list of participants (shareholders) (natural persons – last name, first name and patronymic; legal entities – name, form of incorporation, location), who own 5% of shares (interest) or more as at the date of the audit opinion with an indication of the actual quantity of shares – INTESA SANPAOLO S.p.A. (Italy) – 100% shareholding in the Bank's share capital.

compliance of the equity size presented in the applicant's financial statements for the last reporting period preceding the licence application date with the applicable regulations of the Commission

The Bank's equity in accordance with the financial statements as at 31 December 2020 amounts to UAH 1,719,698 thousand. The size of the Bank's regulatory capital is in line with the NBU regulations during 2020. According to audit findings, the Bank's capital meets the NSSMC regulations.

compliance of the share capital with constituent documents

The Bank's share capital as at 31 December 2020 is in line with the constituent documents of the Bank and amounts to UAH 1,048,726 as shown in Note 22 "Share capital".

the applicant's lack of overdue obligations to pay taxes (presence/absence of a tax debt) and duties, unpaid penalties for violating the legislation related to financial services, including those provided on the securities market.

As at the audit date, the Bank established that it has no overdue tax liabilities, no unpaid penalties for violating the financial services legislation, including in the securities market.

the uses of cash not contributed to form the share capital of the legal entity, which according to its Articles of Association intends to carry out a professional activity in the securities market from the effective date of or amendments in the Articles of Association with regard to the main types of its economic activity.

According to the Bank's information, all contributions into the Bank's share capital were used for statutory activities.

the applicant's related parties identified as such by the auditor during the audit of financial statements

Information about the management personnel that is identified as a related party to the Bank is presented in the Management Statement of JSC "PRAVEX BANK". Information about related-party transactions is presented in Note 37 "Related-party transactions". During the audit of financial statements, we identified no related parties that were not identified by the Bank or any respective related-party transactions that would not be disclosed in Note 37 "Related-party transactions".

the existence and volume of contingent assets and/or liabilities, the recognition of which is probable

During the audit of financial statements, we identified no contingent assets and/or liabilities, the recognition of which is probable, other than those recognised by the Bank in Note 19 "Provisions for liabilities".

events after the balance sheet date that were not disclosed in the financial statements but can have a significant effect on the applicant's financial position

During the audit of financial statements, identified no events after the balance sheet date that were not disclosed in the financial statements but could have a significant effect on the Bank's financial position (refer to Note 38 "Subsequent events").

existence of other facts and circumstances that can have a significant effect on the applicant's future operations and assessment of its extent

Based on our audit findings, we identified no facts or circumstances, other than those specified in the emphasis of matter section of the Report on the Audit of Financial Statements, that can have a significant effect on the Bank's future operations.

More specifically, the composition and structure of the Bank's financial investments do not, in our opinion, pose a threat to the Bank's future operations.

As at 31 December 2020, the composition and structure of the Bank's financial investments is represented as investments in the NBU certificates of deposit in the amount of UAH 1,197,822 thousand and domestic government loan bonds, the fair value of which was UAH 1,600,391 thousand (refer to Note 9 "Investments in securities")

other financial information in accordance with the law

Our audit of the Bank's financial statements did not apply to any other financial information under the law, other than that presented in the Bank's financial statements for 2020 and illustrated in this section of our report with regard to other laws and regulations.

main information about the terms and conditions of the audit contract

date and number – Annex 1 to Agreement No. 219/19 dated 14 September 2020

audit start and completion dates – 4 November 2020 and 17 March 2020.

Key audit partner

The Audit Engagement Partner is Nersesian Gagik Serhiiovych.

General Director

BAKER TILLY UKRAINE LLP Oleksandr Pochkun

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 100810.

Partner

BAKER TILLY UKRAINE LLP Gagik Nersesian

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 100799.

17 March 2020

Kyiv, Ukraine

Main information about the audit firm

Full name: Limited Liability Company "BAKER TILLY UKRAINE".
Location: office 9, 3, Hrekova St., 04112 Kyiv
Actual address: 03150 Kyiv, 28, Fizkultury St.
Registration number in the Register of Auditors and Auditing Entities: No. 2091.

Report of the Management Board for 2020

Executive summary

- The year 2020 brought many challenges not only to "PRAVEX BANK" JSC, but also to the banking sector of Ukraine and the world as a global community. These challenges obviously pertained to the achievement of financial results, but in particular to adapting to a 'new normal' caused by the Covid-19 world pandemic.
- Despite all the difficulties and changes that were confronted during 2020, "PRAVEX BANK" JSC demonstrated stability and reliability, registering results better than forecasted, even though operating in crisis conditions.
- Some of "PRAVEX BANK" JSC's main objectives in 2020 included making further investments to improve efficiency in servicing clients, adopting grater physical security measures for clients and staff to fight the pandemic, maintaining a safe business environment via enhanced data management, and extra attention to cyber-security in compliance with the high standards of the INTESA SANPOLO Group.
- As always, maintaining a high level of client satisfaction remains a top priority for the Bank.
- A number of business initiatives were introduced in 2020, such as contactless payments with the use of «Apple pay» and «Google pay» services, all with the aim of continuing to improve services to clients.
- Safety of the Bank's employees became a key point for the Bank in 2020. In view of spreading of COVID-19 pandemic, the Management Board of the Bank took a number of measures aimed at protecting the Bank's employees and ensuring a safe working environment.
- As part of the INTESA SANPAOLO Group, "PRAVEX BANK" JSC continues to be firmly committed to Environmental, Social and Governance issues (ESG).

Composition of the Management Board of the Bank

The composition of the Management Board is fully aligned with the requirements of the current legislation of Ukraine, including with the requirements on minimum total number of members of the Management Board as follows (as of 31.12.2020):

1. Mr. Gianluca Corrias – the Chairman of the Management Board of “PRAVEX BANK” JSC.
2. Mr. Semion Babayev – the Deputy Chairman of the Management Board.
3. Ms. Svitlana Basha - Member of the Management Board, Head of CFO Division.
4. Mr. Francesco Lupo – Member of the Management Board, Head of Corporate Division.
5. Mr. Marko Koželj – Member of the Management Board, Head of CLO Division.
6. Mr. Giuseppe Dario Caprioli – Member of the Management Board, Head of COO Division.

Ms. Olena Pokhodziaieva – Member of the Management Board, Head of Compliance and AML Department, Responsible officer of the Bank for financial monitoring (AML Officer)

Through 2020, there were changes in the composition of the Management Board of the Bank, namely:
Changes in the composition of the Management Board took place according to Decision of the Supervisory Board of “PRAVEX BANK” JSC No.2_20.13

1) Ms. Olena Pokhodziaieva was appointed to the position of Head of Compliance and AML Department dd. 02.03.2020; on the 01.04.2020 – to the position of Head of Compliance and AML Department, Member of the Management Board and Acting officer of the Bank for financial monitoring (AML Officer).
On the 24.06.2020 - Member of the Management Board, Head of Compliance and AML Department, Responsible officer of the Bank for financial monitoring (AML Officer)
Mr. Giuseppe Dario Caprioli was transferred from the position of Head of CFO Division, Member of the Management Board of the Bank, to the position of Head of COO Division, Member of the Management Board.
Ms. Svitlana Basha was transferred from the position of Head of Planning and Control Department of CFO Division to the position of Head of CFO Division and was elected a Member of the Management Board of the Bank dd. 04.03.2020.

Record attendance

Following the frequency of arisen requests and scope of matters to be considered, the Management Board held 30 meetings in 2020. The regular record of attendance as per meetings is very high. The attendance record in meetings is introduced as follows, considering the start of mandate of each:

Mr. Gianluca Corrias – the Chairman of the Management Board – attended 27/30
Mr. Semion Babayev – the Deputy Chairman of the Management Board 29/30
Mr. Marko Koželj – Member of the Management Board – 28/30
Mr. Dario Caprioli – Member of the Management Board –28/30
Mr. Francesco Lupo – Member of the Management Board – 28/30
Ms. Svitlana Basha – Member of the Management Board – 25/25
Ms. Olena Pokhodziaieva – Member of the Management Board – 22/22

The Management Board consists of the Chairman, the Deputy Chairman, the Members.
The Management Board of the Bank fully meets the requirements of the Bank in scope of available skills and experience in terms of the size of the Bank considering significant relevant background of the Chairman and Members of the Management Board, which is enough for full and deep consideration of all matters submitted for the consideration of the Management Board. The variety of education areas and the acquired work experience of all Members of the Management Board fully cover the areas of the Bank's products and the risk profile.
Each Member of the Management Board contributes significantly in the effective performance of the activity of the Management Board, devotes enough amount of time for fulfilment of its duties in the Management Board of the Bank Having mentioned the above, the competency of the Management Board is to be considered very good.
Based on the results of the verification of corporate officers of the Bank on compliance with qualification requirements, carried out by the Supervisory Board on December 9, 2020 (Minutes 16_20) it was defined that **the Chairman and the Members of the Management Board meet qualification requirements for corporate officers of the Bank**.

PRAVEX BANK

Competence and functional duties

The Management Board of the Bank devotes appropriate and sufficient time for performing the responsibilities as Members of the Management Board by means of participation in the meetings. Each Member of the Management Board manages and bears responsibility for work of the structural units of the Bank subordinated to him according to the organizational structure of the Bank and decisions of the Supervisory Board of the Bank.
Having considered the education areas and professional experience of the Chairman and Members of the Management Board, it might be stated on availability of the collective suitability of the Management Board of the Bank considering the size, peculiarities of the Bank's activity, character and amount of banking and other financial services, risk profile of the Bank.
Moreover, a big portion of time is dedicated to studying the materials of the meeting before the meeting itself, to the analysis and thorough checks of the information provided in the underlying materials of the meeting, in order to clarify the details/get additional information on the proposals submitted for consideration by the Management Board.

Meeting of the Management Board lasts in average 2-3 hours.
The Chairman and Members of the Management Board cooperate in the atmosphere of trust and mutual support, coordinate their wok continuously and consult each other when necessary with the purpose to ensure proper information flow for the assessment of the relevant risks within the tasks performance.
Taking into consideration the above, high record of presence in the meetings of the Management Board, duly consideration of whole scope of competence, the efficiency can be assessed as high.

The functional duties of the Members of the Management Board of the Bank are governed by the Articles of Association of the Bank, Regulation on the Management Board, Personal distribution of authorities, current applicable legislation. The Management Board of the Bank performs management of everyday business activity of the Bank, formation of funds required to perform statutory activity of the Bank and shall be responsible for efficiency of its work according to the principles and procedures established by the Articles of Association of the Bank, Decisions of General Meeting of Shareholders and the Supervisory Board of the Bank.

The Management Board of the Bank acts on behalf of the Bank, shall be accountable to the General Shareholders' Meeting and the Supervisory Board of the Bank, arranges implementation of taken decisions.
Members of the Management Board are obliged to act in the interests and for the benefit of the Bank; comply with Ukrainian law, the Articles of Association of the Bank, regulations of the Bank; comply with and perform the Decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank; adhere to the business plan of the Bank.

Management Board Committees

In 2020, the following Committees of the Management Board were operating in the Bank:
the Credit Committee;
the Problem Assets Committee;
the Credit Risk Governance Committee;
the Assets and Liabilities Management Committee;
the Operational Risk Committee;
the Change Management Committee;
the Internal Controls Coordination Committee;
the Information Security Management Committee;
the Crisis Governance Committee;
the Tender Committee.

The Credit Committee (CC) is the highest permanent decision-making committee of the Bank regarding performing counterparties, whose main responsibility consists in adopting credit decisions in line with the issued strategic guidelines and credit policies, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws and Group regulations.

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

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

PRAVEX BANK

Management Board Committees

The Assets & Liabilities Management Committee (ALCO) is a permanent decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial products governance in compliance with Parent Company guidelines, Bank's internal regulations, laws, rules and regulations set by the competent Authorities.

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

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

Record attendance

In 2020, 4 meetings of the Information Security Management Committee were held

Gianluca Corrias – the Chairman of the ISMC – attended ¾
Semion Babayev – member of the Management Board Committee – 4/4
Marko Koželj – member of the Management Board Committee – 3/4
Dario Caprioli – member of the Management Board Committee –4/4
Francesco Lupo – member of the Management Board Committee – 4/4
Svitlana Basha – member of the Management Board Committee – 4/4
Olena Pokhodziaieva – member of the Management Board Committee – 4/4

In 2020, 2 meetings of the Internal Controls Coordination Committee were held

Svitlana Basha – member of the Management Board Committee – 2/2
Olena Pokhodziaieva – member of the Management Board Committee – 2/2

In 2020, 13 meetings of the Change Management Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 13/13
Semion Babayev – the Deputy Chairman of the Management Board 10/13
Marko Koželj – member of the Management Board – 13/13
Dario Caprioli – member of the Management Board –13/13
Francesco Lupo – – member of the Management Board – 11/13
Svitlana Basha – member of the Management Board – 11/11

In 2020, 70 meetings of the Credit Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 61/70
Semion Babayev – the Deputy Chairman of the Management Board 65/70
Marko Koželj – member of the Management Board – 66/70
Francesco Lupo – – member of the Management Board – 66/70

In 2020, 18 meetings of the Tender Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 13/18
Dario Caprioli – member of the Management Board –18/18
Svitlana Basha – member of the Management Board – 18/18

PRAVEX BANK

Record attendance

In 2020, 30 meetings of the Assets and Liabilities Management Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 28/30
Semion Babayev – the Deputy Chairman of the Management Board 28/30
Marko Koželj – member of the Management Board – 28/30
Francesco Lupo – member of the Management Board – 27/30
Svitlana Basha – member of the Management Board – 26/26, since March 4, 2020
Dario Caprioli – member of the Management Board –4/4 mandate is terminated on March 4, 2020

In 2020, 14 meetings of the Credit Risk Governance Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 11/14
Semion Babayev – the Deputy Chairman of the Management Board 13/14
Marko Koželj – member of the Management Board – 13/14
Francesco Lupo – member of the Management Board – 11/14

In 2020, 25 meetings of the Non-Performing Assets Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 22/25
Marko Koželj – member of the Management Board – 24/25

In 2020, 4 meetings of the Operational Risk Committee were held

Gianluca Corrias – the Chairman of the Management Board – attended 3/4
Dario Caprioli – member of the Management Board –3/4
Svitlana Basha – member of the Management Board – 4/4
Olena Pokhodziaieva – member of the Management Board – 3/3

Conclusions

All matters which fall within the competence of the Management Board and the Management Board Committees were considered in due and full manner, reporting was obtained comprehensively and without delay.
In 2020, the Management Board performed the tasks assigned to it by the current legislation and Articles of Association. Actions performed by the **Management Board have ensured stable continuity of the business activity of the Bank** in accordance with the applicable requirements. Furthermore, it is to be considered that **the performance of its goals for the 2020 has been achieved by the Management Board.**

Sincerely,

Chairman of the Management Board
Gianluca Corrias

MANAGEMENT REPORT

JSC “PRAVEX BANK”

as at 31 December 2020 and for the year then ended

Contents

Information about the Bank

JSC “PRAVEX BANK” (hereinafter – the Bank) is a universal financial institution that provides a full range of services nationwide. Thanks to its developed network, the Bank is represented in all parts of Ukraine. This allowed the Bank to accumulate 27 years of excellence and become one of the most renowned banking brands in Ukraine.

In late June 2008 the Bank sealed a deal to sell 100% of the its shares to one of the leading banking groups in Europe – an Italian group Intesa Sanpaolo. JSC “PRAVEX BANK” is part of the Intesa Sanpaolo banking group, which is one of the leading banking groups in the eurozone and is the leader in all domains of Italian business.

The Bank is always improving its performance, raising standards of banking services and becomes better for its clients and partners. With new opportunities and higher risk management standards and technologies, we can use the available resources and achieve a major breakthrough as a whole. Reliability and stability, a sound development strategy and high standards of customer service allow the Bank to look forward into the future with confidence and implement large-scale plans of dynamic development.

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

The main purpose of the Bank’s business is to earn an optimal return on equity and attracted funds to ensure dividend payments to the Bank’s shareholders and development of banking.

During 2020, the Bank operated in the unpredictable development of the macroeconomic scenario against the background of the global turmoil in international markets caused by the outbreak of coronavirus, growing devaluation of the hryvnia, changes in the executive branch, aggravation of judicial reform, frozen conflict in eastern Ukraine.

Considering all the above factors, starting from March, the Bank was forced to make efforts to maintain the status of a reliable and solvent bank, and took the following measures:

- focused on liquidity management;
- monitor the outflow of customers’ funds;
- changed the work schedule of branches;
- transferred employees to work from home with remote access to ensure continuous operations and at the same time protect employees from infection;
- developed a debt restructuring program for clients and its further active implementetion;
- performed actions towards improvement and transfer of banking services to on-line customer service;
- actively worked towards digitalization;
- performed actions to reduce operating and administrative costs

However, despite the aggravation of the situation with the coronavirus and the introduction of strict quarantine restrictions, the Bank continued to work actively in the following areas:

MANAGEMENT REPORT OF JSC “PRAVEX BANK” as at 31 December 2019 and for the year then ended is prepared in accordance with:

- the Law of Ukraine “On Banks and Banking Activities”;
- the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”;
- the Law of Ukraine “On Securities and Stock Market”;
- the Law of Ukraine “On Joint Stock Companies”;
- the Law of Ukraine “On Financial Services and State Regulation of the Financial Services Markets”;
- “Regulation On the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements” approved by Resolution of the Board of the National Bank of Ukraine No. 90 dated 2 August 2018;
- “Guidance on the Procedure for the Preparation and Publication of Financial Statements in Ukrainian Banks” approved by Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011.

- granted loans to legal entities, focusing on customers who have a stable financial position and a high reputation in the market, as well as needed working capital during the pandemic;
- provided retail lending with strict credit risk control;
- invested available funds in NBU deposit certificates and domestic government loan bonds issued by the Ministry of Finance of Ukraine to avoid liquidity risks and ensure risk-free interest income;
- invested available funds in foreign currency in interbank loans and within swap agreements;
- the bank signed an agreement with the EIB to obtain a credit line to finance the development of small and medium-sized businesses;
- improved and updated its banking products in accordance with the needs of customers and the market;
- revised tariffs for some banking products;
- took active steps to reduce overdue loans through further debt restructuring;
- continued work aimed at realisation/sale of collateral;
- exercised rigorous control over operational expenses and capital investments.

Strategic planning is a key component of the financial mechanism used by the Bank in its activities. The purpose of strategy development is to ensure efficient and competitive operation of the Bank in the financial market.

Within the scope of its strategy, the Bank has clearly defined the core concept of its development, which is to identify main focuses, general objectives and priorities, key lines of the Bank's business, in particular:

- development of corporate and retail lending underpinned by a highly diversified products portfolio;
- growth of deposits, both in the corporate and retail segment and through supranational funds to ensure financing so that lending volumes will grow;
- enhancement of the retail network to achieve a more efficient structure of costs, whilst focusing on wealthy and middle-class clients;
- rigorous control over personnel expenses and administrative expenses.

Managing the Bank in a market economy requires constant revisions of its objectives by reference to changes in external and macroeconomic conditions. Therefore, in addition to the strategic planning, which allows to map out the objectives and the scale, as well as to evaluate the performance by comparing income sources to expense sources, the Bank plans its budget for the next year and carries out the operational (quarterly) planning for the current year.

Analysis is another financial mechanism tool used by the Bank on a continuous basis, allowing it to evaluate the collective and individual performance by lines of business by comparing the actual performance to future projections and previous years.

The Bank operates in Ukraine. The political and economic situation in Ukraine has been unstable in recent years, with the peculiarities of a developing market. Consequently, operations in Ukraine involve risks that do not typically exist in other markets.

During the first months of 2020, there was a significant shock to the world market caused by an outbreak of coronavirus. However, as early as the end of the 2nd quarter, most countries around the world began easing quarantine restrictions, despite the fact that the situation began to deteriorate again in the 3rd quarter. Already in December, despite the deterioration of COVID-19 and the introduction of lockdown in most countries, the situation in global commodity and financial markets improved, due to a gradual increase in demand amid positive news about successful trials of COVID-19 vaccines and the beginning of vaccination in some countries. This directly supported rising prices, particularly for oil and natural gas. Steel and iron ore prices have risen due to increased demand in the context of limited steel reserves and reduced ore supplies from Brazil. Growing demand, deteriorating forecasts of expected yields in Latin America and the introduction of export restrictions in some countries have led to higher grain prices. At the same time, the completion of the election process in the United States led to a rapid increase in the interest of foreign investors in risky assets of developing countries, so most currencies strengthened against the US dollar.

In turn, in order to protect the population of Ukraine from the potential serious threat of coronavirus, the Government from August 1 divided all regions of Ukraine into several zones: green, yellow, orange and red according to the level of epidemic danger of COVID-19. Depending on the degree of the epidemiological situation, quarantine restrictions were introduced. To date, most businesses and organizations have instructed employees to stay home and reduce or suspend business operations. The broader economic implications of these events include:

- undermining business and economic activities in Ukraine that affect supply chains, including trade and transport, travel and tourism, entertainment, manufacturing, construction, retail, insurance and education;
- growth of economic uncertainty, reflected in more volatile asset prices and exchange rates.

The National Bank of Ukraine also took additional measures in response to these events. Banks were recommended to adjust the schedule and carry out additional sanitary measures in all branches to ensure compliance with the requirements of the Ministry of Health of Ukraine.

Also, the NBU requires banks to suspend the obligation to fulfill the main obligation, the fulfillment of which is secured by a mortgage, and to prevent foreclosure on the subject of the mortgage for the period of quarantine. The NBU has prohibited the accrual and collection of penalties (fines, penalties) for late payments for housing and communal services, consumer loans and raising interest rates or any other mandatory payments on consumer loans during the quarantine period.

In order to preserve the financial stability of the NBU:

- Changed the operational design of monetary policy;
- Introduced long-term refinancing of banks;
- Supported banks with cash in foreign currency;
- Postponed the accrual of capital buffers for banks;
- Postponed the submission of the Business Plan for 2020-2023 within the SREP analysis;
- Proposed to banks to introduce a special grace period for servicing loans during the quarantine period for individuals and businesses (credit holidays).

The banking sector has been significantly affected by the introduction of quarantine restrictions related to COVID-19. Since the beginning of the year, the volume of retail deposits, both in hryvnia and in foreign currency, has been growing fast. However, since mid-March, there has been an outflow of funds due to the negative expectations of the population and business, which was covered by sufficient liquidity in the banking sector. However, already in the third quarter, the positive dynamics of the main indicators of banks' activity began to recover after the rapid unfolding of the crisis in the spring. The net loan portfolio grew in the corporate and retail segments. For the first time in many years, mortgages grew faster than consumer loans. At the same time, banks performed active work to clear their balance sheets of bad debts, so the share of non-performing loans decreased by 6.4% since the beginning of the year (from 48.4% to 42.0%). The increase in the banks' deposit portfolio, which was mainly due to the inflow of demand deposits, as well as the resumption of demand for hryvnia domestic government loan bonds from non-residents, ensured a significant increase in investments in government securities. The net profit of the system for November amounted to 43 billion. UAH and decreased by 27% compared to last year, but growth in interest and commission income resumed. The main factor in the decline in profits was the provision for loans which increased by 192% compared to last year, caused by the deterioration of the borrowers’ solvency due to the pandemic.

The NBU has been actively reducing the rate from the beginning of the year to the historically minimum level of 6% (in December 2019 it was at the level of 13.5%). In November, banks continue to reduce hryvnia rates for their customers on lending and deposit operations under the influence of the general trend of cheaper resources. However, domestic government loan bonds profitability increased due to the significant needs of the Government in financing the budget deficit.

During the year the National Bank smoothed excessive exchange rate fluctuations and made interventions of foreign currency sale in the interbank foreign exchange market caused by increased demand for the currency due to deteriorating expectations in the Ukrainian market due to the coronavirus outbreak. This made it possible to alleviate the excitement caused by psychological rather than economic factors.

The International Monetary Fund has reached an agreement with the Ukrainian government on a new three-year Extended Fund Facility (EFF) financing for 4 billion Special Drawing Rights (SDRs) - about $ 5.5 billion. In June, Ukraine received the first tranche of $ 2.1 billion, which was used to overcome the effects of the coronavirus pandemic, as well as to ensure macro-financial stability.

In early September, the international rating agency Fitch Ratings reaffirmed Ukraine's long-term foreign currency-issuer default ratings at "B" with a stable outlook. Ukraine's ratings reflect its credible macroeconomic policies, which have reduced inflation and narrowed the budget deficit to coronavirus shock, as well as a history of international support. However, Fitch has identified low external liquidity with high funding needs debt, vulnerable, albeit improved banking sector, and weak corporate governance.

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

These financial statements reflect the current assessment of management about the impact of operating conditions in Ukraine on the Bank's operating activities and financial condition. Future operating conditions may differ from management estimates.

MANAGEMENT REPORT OF JSC “PRAVEX BANK” as at 31 December 2019 and for the year then ended is prepared in accordance with:

- the Law of Ukraine “On Banks and Banking Activities”;
- the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”;
- the Law of Ukraine “On Securities and Stock Market”;
- the Law of Ukraine “On Joint Stock Companies”;
- the Law of Ukraine “On Financial Services and State Regulation of the Financial Services Markets”;
- “Regulation On the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements” approved by Resolution of the Board of the National Bank of Ukraine No. 90 dated 2 August 2018;
- “Guidance on the Procedure for the Preparation and Publication of Financial Statements in Ukrainian Banks” approved by Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011.

Results and key performance indicators, prospects for further development.

According to the results of operations in 2020, the Bank incurred a loss of 182,803 thousand. UAH, which is 50% more than in 2019 (121 502 thousand UAH). The Bank incurred a loss mainly due to a lower operating margin, the decrease of which was not fully offset by savings in administrative expenses and lower provision costs. The main reason for the significant decrease in operating margin was a decrease in net interest income from the placement of funds in NBU deposit certificates and domestic government loan bonds and from corporate lending due to reduced profitability caused by the NBU's rate policy and market conditions.

The total assets of the Bank in 2020 compared to 2019 increased by 33% and amounted to UAH 7,665 million. This increase was driven by higher amounts of borrowed funds from both individuals and legal clients.

The Bank's balance sheet showed the following results:

- doubling the loan portfolio of customers was achieved through active lending to both the retail segment driven by the launch of new products and the corporate segment due to the attraction of new customers;
- increase in the deposit portfolio due to the need to attract resources to ensure the development of lending;
- growth of the securities portfolio as a source of liquidity risk diversification.

Regarding non-financial performance of the Bank, it should be noted that during the reporting year the number of ATMs decreased to 104, at the same time, the Bank actively increased the number of cards to 70 thousand. The branch network did not change during the year and amounted to 45 branches.

In general, the Bank's results for 2020 correlate with the management's objectives that were achieved in the reporting year as far as the net financial result.

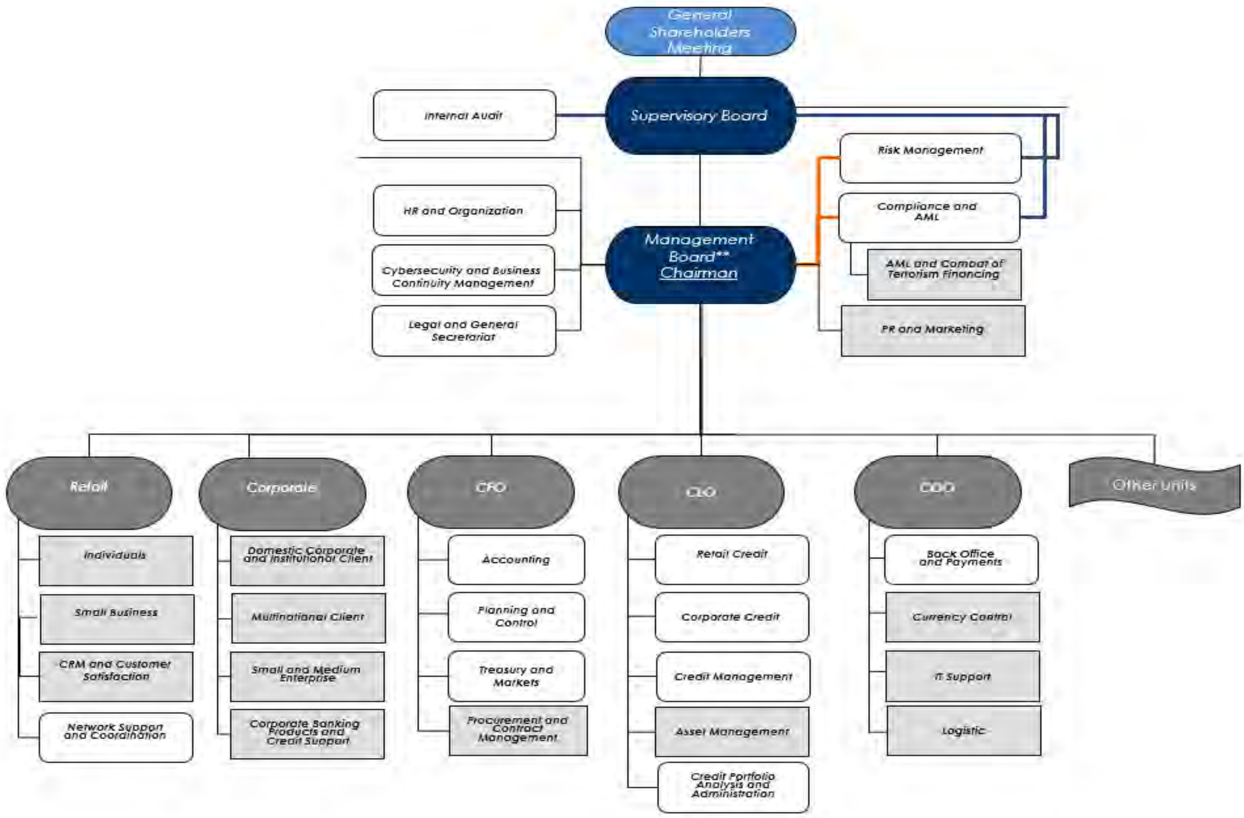
Overall, the Bank has implemented the liquidity adequacy strategy and met the liquidity ratios.

The Bank intends to continue implementing its strategy in the next year and in the long term.

Share capital, cash flows, human capital, intellectual capital, technological resources are the key financial and non-financial resources for the Bank to achieve its objectives.

The Bank's structure as at 31 December 2020 comprises 45 universal branches located in Kyiv and large cities. Most branches are concentrated in Kyiv.

The summarised organizational structure of the bank is given in the form of the scheme below:



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

Resolution of the National Securities and Stock Market Commission (NSSMC) No. 583 dated 28 August 2018 on the issue of the licence to conduct professional activity on the stock market in the area of securities trading (brokerage activity);

Banking licence no. 7 dated 18 April 2018;

NSSMC Licence series AE no. 286534 to conduct professional activity on the stock market – depositary activity of the depositary institution – issued on 8 October 2013. The licence is valid from 12 October 2013 for an indefinite period;

NSSMC Resolution No. 595 dated 10 August 2018 on the issue of the licence to conduct professional activity on the stock market in the area of securities trading (dealing activity). The Bank has the right to conduct banking transactions under Section III of the Articles of Association.

The Bank has the right to perform the following banking operations:

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

During 2020 the Bank was in the list of Ukrainian banks authorised to pay pensions, salaries and financial aid payments, as well as the salaries of employees of budgetary institutions.

The Bank offers attractive terms of account maintenance and designed a simple cooperation scheme: having entered into an agreement with an entity, the Bank opens card accounts and issues cards to all employees. On the payday, the entity transfers salaries and wages to the Bank's transit account. From there, the Bank transfers salaries and wages to card accounts of the entity's employees.

The Bank has the following plans:

- to develop managerial capabilities and strengthen presence in the corporate segment;
- to implement new and innovative solutions in products for corporate clients (trade finance, international payments, etc.);
- to utilise best practices of Intesa Sanpaolo Group, development of trade finance products via a broad corporate network;
- to focus on medium-class retail clients;
- to offer specialised products to various client categories tailored to their needs;
- to participate in government lending programs for individuals and small and medium-sized businesses;
- the Bank continues implementing the strategy of development as a universal banking institution;

Within the segment of its corporate business, the Bank has plans to significantly expand its presence on the market. To arrive at that aim, the Bank has the following plans:

- to increase the number of first-class major corporate clients in its portfolio;
- to attract institutional clients and financial institutions willing to cooperate with the Bank on deposits given the affiliation to ISP Group;
- to expand cooperation with international and Italian companies;
- to expand activities with medium and small enterprises, including through the introduction of special lending conditions through government support programs such as "5-7-9";
- to start cooperating with international institutions in the area of trade finance and risks sharing agreements;
- to participate in consortia/club agreements;
- to develop and launch new products in the areas of liquidity management, documentary financing, e-banking and foreign currency risks hedging;
- to develop simplified credit products for SMEs.

The Bank regularly seeks to improve its products and services, taking into account the special nature of banking sector development. As a result, the Bank has designed and implemented, or is about to introduce, a number of business applications and software programmes in the reporting year, including:

For retail business:

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

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

For Corporate Business:

- Overdraft for legal entities;
- Trade finance products for legal entities (Documentary collection);
- Cash management products (transfer of funds from the account at the request of the initiator of payment - execution of a message received via SWIFT in SWIFT MT101 format, cash pooling or Automatic concentration of funds on a specific Master account, which allows you to combine all funds in one account and promptly connect new accounts).

The bank treats its customers responsibly. It is constantly engaged in a dialogue with its clients and maintains excellent relations with them. Therefore, the Bank treats very seriously any complaints or other requests from customers in order to show their dissatisfaction, which makes it possible to:

- eliminate any reasons for dissatisfaction and preserve friendly relations;
- complaints and requests can serve as an indicator of the level of service, based on which it can be learnt how to improve the proposed products and commercial processes, as well as improve the characteristics of specific products / services;
- complaints and requests may be an element by which operational and reputational risks can be assessed and managed, especially the risks of non-compliance and control.

Semion Babayev, Director of the Head Retail Department and Deputy Chairman of the Management Board of JSC “PRAVEX BANK”, has been charged with the review of complaints.

In 2020, the Bank received and resolved 40 complaints. The majority of complaints pertained to unauthorised debiting of cash from current and card accounts, foreign exchange transactions, poor operation of branches and poor attitude towards clients on the side of staff.

In handling the complaints, the Bank applies the approach that is based on the principles of transparency and fairness and seeks to ensure effective resolution of disputes in accordance with the Bank’s internal regulations.

Complaint management, first, involves verifying the facts reported by the customer and the conduct of the staff dealing with the customer; assessment and decisions are based on internal and external regulations, policies and statements specified in the Code of Ethics of Intesa Sanpaolo Group.

The regulatory capital is one of the most important performance indicators of the Bank. Its main purpose is to cover implications of different risks that the Bank assumes in the course of its business and to ensure the protection of deposits, its financial resilience and stability.

To assess the real size of regulatory capital, taking into account the risks affecting it, the Bank regularly assesses the quality of the asset-side banking transactions and determines the credit risk exposure as prescribed by the NBU requirements.

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

- highly profitable use of own resources;

- covering all possible risks assumed by the Bank;
- optimising assets and liabilities structure by ageing and deposits.

As of December 31, 2020, in accordance with the requirements of the National Bank of Ukraine, banks must maintain the capital adequacy ratio (H2) at 10% and the common capital adequacy ratio (H3) at 7% in relation to risk-weighted assets, calculated in accordance with NBU regulations.

As at 31 December 2020, the Bank complied with the regulatory capital adequacy ratio (H2) with a rate of 35.65% (31 December 2019: 73.01%) and the common capital adequacy ratio (H3) with a rate of 34.11% ((31 December 2019: 69.68%).

The amount of regulatory capital as of December 31, 2020 is UAH 1,353,479 thousand (compared to 2019 it amounted to UAH 1,557,582 thousand).

The Bank ensures that it is always prepared to meet its obligations timely and in full by regulating its composition of balances.

To ensure adequate managerial decision-making, the Bank has introduced an integrated assets and liabilities management approach that combines various components of the approach (e.g. policies, ratios, etc.) into a single system to raise profitability, whilst maintaining an adequate level of risk. The integrated approach is applied by appropriate structural units of the Bank as part of their tasks and functions.

Assets and liabilities are managed by respective structural units in phases:

1) strategic management of the Bank's resources (according to the market-based measure of the Bank's equity). Business results are evaluated in "profitability (return) – risk" coordinates using such indicators as the ratio of equity, liabilities and assets, competitive return on assets (ROA) and return on equity (ROE);

2) tactical management of the resource base (taking managerial decisions regarding individual components of the resources base, where each component is analysed for "profitability – risk" in isolation, without taking into account its connection to other components. In doing so, managerial decisions may seek an optimal structure and composition of each resource base component, if any, in accordance with the principle of maximised returns and adequate risk limit);

3) operational financial management (using integrated approach in managing the Bank's assets and liabilities. Such operational financial management is primarily related to the management of the Bank's balance sheet items. To that end, a responsible unit prepares reports on the structure of the Bank's assets and liabilities on a daily basis with a breakdown by key currencies (UAH, USD, EUR)). The integrated approach to manage the Bank's assets and liabilities is introduced and implemented by a specific body within the Bank – the Assets and Liabilities Management Committee (ALCO).

Liquidity management is a key component in managing the Bank, as it ensures that the Bank will meet all its commitments to the client in terms of the timely payment and repayment of their money under any circumstances. As far as liquidity management, the Bank seeks to comply with the mandatory liquidity ratios set by the National Bank of Ukraine, to prevent any liquidity shortage or excess and to maintain an adequate ratio of liquidity and return on asset-side transactions, as well as to minimise the liquidity risk affecting the Bank. When managing its liquidity, the Bank evaluates both external and internal factors such as:

- current economic and political situation in Ukraine, preparation of forecasts;
- health and stability of the national banking system, monetary, lending and foreign currency markets, as well as statutory regulations applicable to banking;
- accessibility of international currency and capital markets;
- quality of the Bank's assets and liabilities.

The Bank adheres to a growth strategy and aims to create a lasting and strong foundation of economic and financial, social, as well as social and environmental nature, which should be based on the trust of all our partners and based on the following values:

Labour relations between employees and the Bank are regulated by the applicable labour laws of Ukraine.

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

The Bank has the right to engage Ukrainian and foreign experts in accordance with the applicable law of Ukraine.

Intesa Sanpaolo Group and the Bank, being part of the Intesa Sanpaolo Group, decided to approve their own Code of Ethics, structured as a true 'charter of relations' between the Bank and all its partners. The Code of Ethics explains the values that Intesa Sanpaolo Group believes in and upholds, outlines the principles of behaviour based on those values in the context of relations with each partner and sets relevant standards that each representative of the Bank must respect in order to earn trust of all its partners.

The values enshrined in the Code of Ethics are based on the corporate culture and past experience, primarily of Intesa Sanpaolo Group. On one hand, they are are like 'spectacles' that should be used to observe and understand various situations and, on the other hand, they are an objective that one should be trying to achieve, the purpose of the ongoing process that will characterise our performance in the years to come.

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

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

The Bank's purpose is to provide excellent banking and financial services to its clients.

Core values and principles. The Bank's strategy seeks to achieve growth, create a sustainable and strong basis of economic, financial, social and ecological nature, which should be based on the trust of all our partners and rest upon the following values:

- Honesty. The Bank pursues its goals honestly, consistently and responsibly, with a rigorous and complete respect of the existing rules, professional ethics and spirit of the signed agreements.
- Perfection. The Bank seeks to continuously improve its performance, look far ahead, whilst anticipating potential challenges, supporting the broad creativity, being the starting point of innovations, and evaluating the end result appropriately.
- Transparency. When it comes to placing advertisements and signing agreements, a great deal of attention is paid to transparency, so that all our partners can always have a free choice and make responsible decisions. The Bank strives to combine the global capabilities of our Company with its experience in specific countries, so that it can exercise a global mindset without losing focus on individuals.
- Equality. The Bank seeks to exclude discrimination among its staff and promote tolerance to differences in gender, age, race, religion, political views or social status, sexual orientation and identity, language or various types of disability.
- Value of the individual. Value of the individual as such is the guiding principle for all actions of the Bank: for us, the ability to listen and have a dialogue is the driver of continuous improvement of our cooperation with all our partners.
- Responsible use of resources. The Bank makes every effort to be mindful of the use of all resources and supports measures that allow to optimise such use and avoid losses or unnecessary waste of resources by giving preference to long-term solutions.

Socially responsible investment. The Bank believes that investments need to increasingly take into account the social and environmental criteria, as well as the criteria for responsible management, which will facilitate a well-balanced and substantial development.

Assessment of social and environmental risks. The Bank believes that investment decisions and credit policies should also take into account the social and environmental risks based on the principle that profitable economic activity is acceptable only if it does not harm the society or environment at the same time, which is why:

- the Bank does not consider applications for financing of any economic projects that might lead to direct or even indirect violations of the fundamental human rights, interfere with human development or adversely affect public health and the environment;
- the Bank promotes peaceful coexistence and refuses to provide financial support to any activities that may threaten such coexistence;
- the Bank prioritises projects of a high social and environmental weight.

Compared to the previous period, there have been no significant changes in the environmental and social aspects.

As at 31 December 2020, the Bank had 816 employees. The Bank treats its employees as a valuable resource and hires the leading experts in the Ukrainian market.

The Bank hopes to give its employees with equal opportunities in terms of assessment, motivation and career growth.

The Bank asks its employees to contribute to the responsible use of all resources that they use whilst performing their functions.

The Bank makes every effort to develop its intellectual capital by investing resources in training, development and motivation of its employees. People are the main bearers of intellectual capital. Intellectual capital management has excellent opportunities to turn into a successful strategy in the future.

The Bank believes that internal communication is the establishment of effective relationships between employees and the management. Internal communications are aimed at solving strategic tasks, strengthening employee loyalty and establishing common standards of conduct in accordance with the Code of Ethics. Through internal communications, employees will have a deeper understanding of the Bank's corporate culture, goals and values. Internal communications are tying all structural units together on all levels, forming a sense of community and an efficient team.

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

When hiring a candidate, the candidate's documents are examined and his/her professional level, experience, professional competence, business reputation at previous places of work and feedback from former colleagues are assessed. The final decision to fill the vacant position is made by result of examinations and an objective inspection of the documents of multiple incumbents by conducting a comparative assessment of incumbents by reference to their skills, professionalism and experience.

The Bank's employees have the opportunity to improve their general and professional level by participating in trainings, seminars, reskilling and experience-sharing activities within the Group.

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

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

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

Cooperation with the state and national law enforcement authorities:

In cooperating with authorities that carry out supervisory, operational investigative or other measures required by the law, the Bank’s employees should refrain from any illegal or unethical behaviour.

Where necessary, the Bank cooperates with the national law enforcement agencies by assisting them during anti-corruption inspections, efforts aimed at preventing and investigating acts of corruption.

The Bank, as part of Intesa Sanpaolo Group (“the Group”), seeks to fight corruption in all its forms and manifestations, where corruption refers to the offer or acceptance, whether direct or indirect, of money or other benefits that may affect the recipient in a way that he/she is induced or encouraged to conduct or misconduct his/her functions or responsibilities. To achieve these goals, the Bank has developed the Corruption Prevention and Counteraction Policy approved by decision of the Supervisory Board of the Bank No. 10_17.24.1 dated 12 December 2017 (hereinafter in this section – “the Policy”).

The Policy is designed to confirm the commitment of the Bank, its management bodies and employees to high ethical standards and principles of open and honest business conduct, as well as the desire of the banking institution to improve the corporate culture, to comply with the best international practices of corporate governance and maintain the Bank’s business reputation at an appropriate level.

The main goals and objectives of the Policy are:

- to create conditions for a successful counteraction to corruption in the Bank;
- to define and introduce mandatory anti-corruption procedures in the Bank;
- to ensure compliance of the Bank with the requirements of the Ukrainian and international anti-corruption law, as well as the standards of business ethics;
- to regulate anti-corruption standards of the Bank;
- to form a uniform understanding of the Bank’s position on the intolerance of corruption in all forms and manifestations the management and employees of the Bank, as well as the persons cooperating with the Bank;
- to protect its shareholders and clients from any financial loss and reputational damages if corruption is revealed;
- to minimise the risk of involving the Bank, its managers and employees (regardless of their position) in any corrupt activities;
- to assist in ensuring the transparency of the Bank's financial and business operations in their entirety;
- to introduce the advanced corporate governance standards.

Main principles of the Bank’s anti-corruption activities:

The Bank’s commitment to the law and high ethical standards in business relations is intended to enhance its reputation among the partners, counterparties, clients and other parties that contact with the Bank as part of their business. The Bank’s refusal to participate in any corrupt dealings and its anti-corruption safeguards promote diligent behaviour among employees both inside and outside the Bank (with partners, contractors, clients and others).

The Bank cooperates with the government and law enforcement agencies in everything that involves the combating of corruption, takes appropriate measures against attempts to legalise the proceeds of crime.

Zero tolerance principle (zero tolerance to corruption): the Bank’s management plays a key role in shaping the culture of intolerance to corruption and creating an intrabank system for preventing and fighting the corruption. The Bank’s shareholders, including its management and officials, form an ethical standard of the irreconcilable attitude to all forms and manifestations of corruption at all levels, setting an excellent example of communication and business relations through their behaviour.

The introduction of anti-corruption procedures involves informing all employees about the Bank's position and its attitude to combating corruption. The Bank promotes anti-corruption culture by informing its employees in order to maintain their awareness of the Bank's anti-corruption law and policy and to master the means and methods of applying the anti-corruption policy in practice.

High-risk areas and adequacy of anti-corruption procedures.

The Bank takes all necessary measures to develop, improve and implement a set of measures to lower the probability that the Bank, its managers and employees will be involved into corruption activities.

Adequacy and inevitability of punishment

The Bank requires that its shareholders, management, officers and employees strictly adhere to the Policy and the State and International Anti-corruption Policy.

The Bank's shareholders, management and employees, irrespective of their position, experience and other conditions, will bear the responsibility established by the laws and internal documents if they commit any corruption offences.

Openness of business

The Bank communicates its Policy (its declarative part) through mass media and the Internet to inform the retail and corporate sector, including its counterparties, partners, etc., about the anti-corruption standards of business conduct adopted by the Bank.

The Bank welcomes and encourages compliance with the anti-corruption principles and requirements among all its counterparties, partners, clients and other parties.

The Bank reacts to any messages and requests regarding any manifestations of corruption received from all interested and concerned persons at the call-centre or the Bank's e-mail: bank@pravex.ua.

In 2020, the Bank applied and fully recovered the following punitive damages. The amount of fines paid was immaterial and had no significant impact on the reported financials.

No	Number and date of resolution on the imposition of the fine	Governing body imposing the fine	Type	Total, UAH	Status
1.	Fine announcement-resolution dated 06/03/2020 No. 0000304302. Based on Revision Act dated 17/02/2020 No. 321/28-10-43-02/14360920 and reply to objection dated 03/03/2020 No. 1454/9/28-10-43-02-11	The office of large taxpayers of the State Treasury Service	Fine	57,120.00	Paid on 29/05/2020

No	Number and date of resolution on the imposition of the fine	Governing body imposing the fine	Type	Total, UAH	Status
2.	Revision Act dated 17/06/2020 № 814/2/-10-43-02/14360920	The office of large taxpayers of the State Treasury Service	Fine	1,385.44	Paid on 14/07/2020

There have been no litigations involving claims for the amounts equal to or exceeding 1 per cent of the Bank's total assets as at 31 December 2020, where the Bank was a party, or the litigations involving the Bank's officers.

Relations with related parties and shareholders

Relations with the Bank's related parties are regulated by the Bank in compliance with the applicable laws of Ukraine, regulations of the National Bank of Ukraine, requirements of Resolution No. 64 of the Board of the National Bank of Ukraine dated 11 June 2018 ("On Approval of the Regulations on the Organisation of the Risk Management System in Ukrainian Banks and Banking Groups"), and Articles of Association and internal documents of the Bank.

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

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

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

Related-party transactions conducted during 2020 had no material effect on the Bank's financial results.

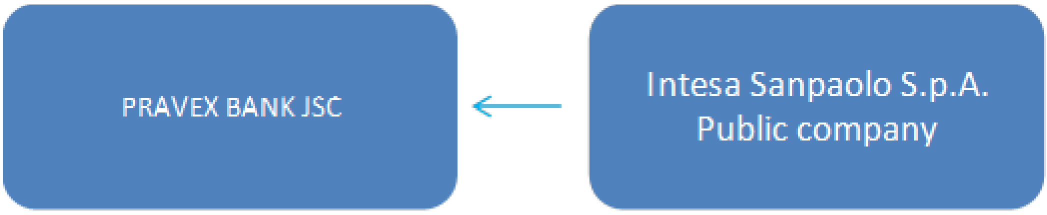
Corporate governance report

Organisation of corporate governance

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

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

The Bank's ownership structure as at 31 December 2020 is presented in the figure below:



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

In 2020, no changes took place in the list of majority shareholders. The Bank has a status of a foreign-owned bank.

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

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

Furthermore, the Bank understands that effective corporate governance is essential to achieving its objectives and is constantly updating its corporate governance structure based on past experience, legislative changes, national and international best practices, corporate governance principles and guidelines. Corporate governance is organised in accordance with the Corporate Governance Principles ("the Code") of PJSC CB "PRAVEX BANK" ("the Principles") approved by Shareholder Resolution No. 5/2016 dated 13 December 2016 and published on the Bank's official website at https://www.pravex.com.ua/o-banke/pro-nas/ustanovchi-dokumenti.

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

The Corporate Governance Principles (the Code) was developed by reference to the laws and regulations below:

- the Law of Ukraine "On Banks and Banking Activities";
- the Law of Ukraine "On Joint Stock Companies".

In 2020, the Bank has fully complied with the Corporate Governance Principles approved by Shareholder Resolution No. 5/2016 dated 13 December 2016.

No violations of the internal rules for 2020 by the members of the Bank's Supervisory Board were revealed.

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

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

The General Meeting of Shareholders is the supreme management body of the Bank. Shareholder Resolutions can be found at the Bank's website: https://www.pravex.com.ua/o-banke/pro-nas/ustanovchi-dokumenti.

In 2020, Shareholder Resolutions were made in respect of the following matters:

- cancellation of the shareholder's decision of JSC "PRAVEX BANK" No. 5/2019 dated 12/12/2019 р. regarding approval of the changes to the Bank's Articles of Association by presenting it in a new edition;
- approval of changes to the Bank's Articles of Association by presenting it in a new edition;
- approval of the financial statements of JSC "PRAVEX BANK" as at 31 December 2019 and for the year then ended; review/approval of the reports of indendent auditor BAKER TILLY LLP; approval of the Management Report as at 31 December 2019 and for the year then ended; approval of the financial result of JSC "PRAVEX BANK" for 2019; approval of the amount of annual dividends;
- approval of the report of the Supervisory Board of JSC "PRAVEX BANK" for 2019, approval of measures upon its review;
- approval of the report of the Management Board of JSC "PRAVEX BANK" for 2019, approval of measures upon its review;
- approval of the report on remuneration to members of the Supervisory Board of JSC "PRAVEX BANK" for 2019;
- approval of the Revision Commission report of JSC "PRAVEX BANK" for 2019;
- approval of the Remuneration and Incentive Policy of the Bank for 2020;
- appointment of a new (independent) member of the Supervisory Board. According to Article 49 of the Law of Ukraine "On Joint Stock Companies" ("the Law") regarding the specifics of holding a general meeting by a company that consists of one person, the provisions of articles 33-48 on the procedure for convening and holding general meetings of a joint-stock company are not applicable to a company consisting of one shareholder. The powers of the general meeting envisaged by Article 33, the Law and internal regulations of the company shall be exercised by the shareholder on its own. Resolutions of the shareholder on matters that fall within the competence of the general meeting shall be formalised by the shareholder in the form of a written resolution. The previously mentioned resolution of the shareholder shall have the status of the minutes of the General Meeting of Shareholders.

Extraordinary general meetings were initiated by the Shareholder of the Bank.

Supervisory Board

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

The Supervisory Board of the Bank is elected by the General Meeting of Shareholders among the Bank's shareholders, their representatives and independent members (independent directors).

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

The competence of the Supervisory Board, among other things, includes:

- approval of draft annual financial statements of the Bank before their submission for final approval by the General Meeting of Shareholders;
- approval of the Bank's development strategy in accordance with the key lines of business outlined by the General Meetings of Shareholders, review and assessment of the main principles of business conduct by the Bank and defining and approval of the risk management strategy, policies, procedures, list of risks and limits; control over efficiency of the risk management system; approval of the Bank's policy of business conduct; delegation of powers to manage the property and funds of the Bank to other bodies or officials of the Bank; defining the Bank's lending policy;
- ensuring proper functioning of adequate internal and external controls; detecting errors in controls and developing proposals and recommendations for their elimination; control over effectiveness of external audit, objectivity and independence of the auditor; control over elimination of discrepancies detected by the National Bank of Ukraine and other state authorities and management that, within their competence, oversee activities of the Bank, the internal audit department and the audit firm, at the results of the external audit;
- election and termination of the powers vested in the Chairman and members of the Management Board, directors of head offices, departments and units directly subordinated to the Chairman of the Management Board, as well as the head of internal audit of the Bank;
- approval of internal regulations applying to the Bank's operations other than those falling within the exclusive competence of the General Meetings of Shareholders under the law on joint stock companies and those submitted for approval by the Management Board.

In accordance with the requirements of the current legislation and the Articles of Association of JSC "PRAVEX BANK", the Supervisory Board of JSC "PRAVEX BANK" consists of seven members, three of which are independent.

As at 01 January 2020, the Supervisory Board of the Bank is represented by:

Ezio Salvai – Chairman of the Supervisory Board

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

Fabrizio Mallen – Independent member of the Supervisory Board

Sergio Nicola - Independent member of the Supervisory Board

Andrea Fazzolari - Member of the Supervisory Board

Lorenzo Fossi - Member of the Supervisory Board

Emanuele Collini - Member of the Supervisory Board

Changes in the composition of the Supervisory Board in 2020 took into account the following:

As of October 17, 2020, the powers of the Member of the Supervisory Board, (independent member) Sergio Nicola were terminated at his own request in accordance with the written notice of the Bank on October 2, 2020. Due to the early termination of the term of office of Sergio Nicola, an independent member of the Bank's Supervisory Board, Ms. Laura Febbraro was elected a member of the Bank's Supervisory Board (independent) from the date of the decision of her election (decision of the JSC “PRAVEX BANK” Shareholder No 4/2020 dated 22/10/2020).

Laura Febbraro's candidacy as a candidate for the position of a member of the Supervisory Board of JSC “PRAVEX BANK” was approved by the National Bank of Ukraine (NBU decision No320 of July 23, 2020)

As at 31 December 2020, the Supervisory Board of the Bank is represented by:

Ezio Salvai – Chairman of the Supervisory Board

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

Fabrizio Mallen – Independent member of the Supervisory Board

Laura Febbraro - Independent member of the Supervisory Board

Andrea Fazzolari - Member of the Supervisory Board

Lorenzo Fossi - Member of the Supervisory Board

Emanuele Collini - Member of the Supervisory Board

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

In 2019, the Supervisory Board meetings were convened on a quarterly basis in accordance with the Regulation on the Supervisory Board. In addition, the Supervisory Board convened other meetings during the year.

There have been 17 meetings convened in total during 2020 by means of video conferences and e-mailing.

The Supervisory Board of the Bank took decisions within its competence as specified by the Bank’s Articles of Association and the applicable law. Among the issues considered by the Supervisory Board during the year were, in particular, but not limited to: quarterly report on corporate business results, a quarterly report on retail business results, budget approval, quarterly reports on financial results, quarterly financial statements, quarterly risk management reports containing information on credit risk, market risk and operational risk, approval and revision of the strategy for non-performing assets, organisation matters, appointments, dismissal of heads of the Bank’s structural units, reports on counteraction to the legalisation of proceeds from crime, compliance reports, etc.

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

During 2020, remuneration to the members of the Supervisory Board of PRAVEX BANK JSC was paid in accordance with the Decisions of the Sole Shareholder of the Bank dated April 26, 2018, October 22, 2020 and civil law agreements concluded with the members of the Board for their participation in the Supervisory Board and Supervisory Board committees during the year.

The amount of the annual remuneration of each member of the Supervisory Board is set by the decision of the shareholder and is paid once a year according to the time worked.

The total annual (fixed) remuneration of the members of the Supervisory Board of PRAVEX BANK during 2020 amounted to EUR 59,865.46 (equivalent to UAH 2,026,103.90).

In accordance with the decisions of the shareholder and the terms of civil contracts, the remuneration is paid on "15" December 2020, in proportion to the time worked, in the manner prescribed by the civil contract.

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

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

The remuneration accrued to the members of the Supervisory Board was paid in non-cash form by transferring it to their accounts in the national currency of JSC "PRAVEX BANK" at the official exchange rate of the NBU on the day of payment.

During 2020, the criteria for determining the remuneration of members of the Supervisory Board did not change. The remuneration of the members of the Supervisory Board of the Bank did not depend on the annual results of the Bank.

The following Committees are accountable to the supervisory authority:

- ✓ **Audit Committee**

In 2020, the Audit Committee of the Supervisory Board was established (decision of the Supervisory Board No. 4_20.1 dated 27.04.2020).

The Audit Committee is represented by:

Committee's Chairman

C. Casalino (independent member)

Members of the Audit Committee:

- L. Febbraro (independent member)
- L. Fossi

The Audit Committee has the following authorities:

- exercises control independently or submits a request for its implementation to the relevant divisions of the Bank;
- seeks information, explanations and support from any structure of the Bank and / or external auditors;
- applies to the competent body of the Bank for permission to obtain external consultations;
- requests the presence of the Bank's managers at the Committee meeting (s), as well as the presence of external advisers and / or external auditors;
- invites temporary visitors.

The Committee's responsibilities are assisted by the Bank's Internal Audit Unit, which must be sufficiently qualified to support the Committee in its ongoing audits, analysis and other responsibilities.

The Committee performs advisory, consultative and support functions for the Supervisory Board, paying particular attention to the periodic assessment of the adequacy and effectiveness of the Bank's overall internal control system.

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

The Committee meets at least once a quarter, during the approval of financial statements, with the possibility of convening additional meetings on specific topics that are considered relevant.

In 2020 3 meetings of the Audit Committee were held.

Decisions were made in accordance with the scope of authorities of the Committee.

- ✓ **Risk Management Committee**

In 2020, the Risk Management Committee of the Supervisory Board was established (Decision of the Supervisory Board No.3_20.22 of March 27, 2020). The composition of the Risk Management Committee was confirmed by the decision of the Supervisory Board No.4_20.1 dated 27.04.2020.

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

The Risk Management Committee is represented by:

Committee’s Chairman

F. Mallen (independent member)

Members of the Risk Management Committee:

- C. Casalino (independent member)
- E. Collini

Risk Management Committee has the following authorities:

- seeks information, explanations and support from the Risk Management Department, management and other employees of the Bank;
- applies to the competent body of the Bank for permission to obtain external consultations;
- requests the presence of the Bank's managers at the Committee meeting (s), as well as the presence of external consultants;
- invites temporary visitors.

The responsibilities of the Committee are assisted by the Bank's risk management unit, which must be sufficiently qualified to support the Committee in carrying out its activities, analysis and other responsibilities, which are performed on an ongoing basis.

The Committee meets at least once a quarter, during the approval of financial statements, with the possibility of convening additional meetings on specific topics that are considered relevant.

In 2020, 4 meetings of the Risk Management Committee were held.

Decisions were made in accordance with the scope of authorities of the Committee.

Management Board

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

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

As at 31 December 2020, the Management Board of the Bank is represented by:

- Gianluca Corrias – Chairman of the Management Board of JSC “PRAVEX BANK”.

- Babayev Semion Zavluievych – Deputy Chairman of the Management Board, Head of Retail Division.
- Francesco Lupo – member of the Management Board, Head of Corporate Division.
- Marko Koželj – member of the Management Board, Head of Lending Division.
- Giuseppe Caprioli Dario - Member of the Management Board, Head of COO Division.
- Basha Svitlana Mykolaivna - Member of the Management Board, Head of CFO Division.
- Pokhodziaieva Olena Volodymyrivna - Member of the Management Board, Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring.

During 2020, the following changes took place in the Management Board of the Bank in accordance with the Decision of the Supervisory Board of JSC "PRAVEX BANK" №2_20.13:

- Pokhodzyaeva O.V. was appointed to the position of Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring, starting from March 2, 2020; responsible employee of the Bank for financial monitoring and member of the Management Board of the Bank, starting from April 01, 2020;
- Transfer of Mr. Giuseppe Caprioli Dario from the position of Head of CFO, Member of the Management Board of the Bank to the position of Head of the COO, Member of the Management Board of the Bank (transfer from March 4, 2020)
- Transfer of Basha S.M. from the position of the Head of Planning and Control Department of the CFO Division to the position of the Head of CFO Division; appointment of Basha S.M. as a member of the Management Board of the Bank.

The Bank's Management Board is held at least twice a month by personal presence or video conference. If necessary, the Board may also be organized by e-mail in accordance with the procedure established by the Regulations of the Board.
In 2020, the meetings of the Management Board of the Bank were held in full compliance with the requirements set out in the Regulations on the Management Board.
In 2020, 30 meetings of the Bank's Management Board were held (23 of them in person or by videoconference and 7 by e-mail).
The competence of the Management Board and issues submitted for its approval are established by the Bank's Articles of Association.

The committees of the Management Board, as of 31.12.2020 include:

- Credit Committee
- Credit Risk Management Committee
- Problem Assets Committee (PAC)
- Assets and Liabilities Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Change Management Committee
- Information Security Management Committee
- Crisis Management Committee
- Internal Control Coordination Committee

- Tender committee

The activity of the Committees of the Management Board, except for the Tender Committee, is regulated by the Regulations on the Management Committees of JSC “PRAVEX BANK”, which was approved by the Decision of the Management Board of the Bank No.14_20.19 dated 25.06.2020.

Meetings of the Management Boards are held in accordance with the approved provisions, namely the Credit Risk Management Committee (at least once a month), the Credit Committee (at least twice a month - the Bank holds meetings of the Credit Committee every week), the Problem Assets Committee (at least once a month - the Bank holds meetings of the Problem Assets Committee twice a month), the Assets and Liabilities Management Committee (at least once a month), the Operational Risk Management Committee (at least once a quarter), the Change Management Committee (at least once a month), Internal Control Coordination Committee (at least once a quarter), Information Security Management Committee (at least once a quarter), Crisis Management Committee (in case of crisis or emergency).

The tender committee is held at least once a month.

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

Credit Committee

The Credit Committee was established by Resolution of the Supervisory Board dated 22 December 2008 in accordance with the Articles of Association or internal regulations of the Bank. The Credit Committee is the highest standing committee of the Bank charged with decision-making as to performing counterparties. Its primary function is to make credit decisions in accordance with the strategic credit guidelines and policies, whilst acting within the Bank’s lending authority and in accordance with laws and regulations of the Group. Information on the Credit Committee is detailed in the Internal Control System section.

The Credit Committee according to its authorities:

- discusses and makes decisions on loan proposals from performing counterparties within the credit authority delegated to it by the Supervisory Board of the Bank;
- approves proposals submitted by the operational structural units operating in the credit domain as far as loan proposals that, due to their special features, importance or duration, go beyond the powers conferred to structural units;
- for loan proposals that go beyond the powers conferred to structural units:
  - requests the Consultative Conclusion from the authorised credit department of Intesa Sanpaolo:
  - in case of full compliance with the Consultative Conclusion received from the Parent Company, the Credit Committee makes the final decision, unless the final decision does not fall under the exclusive competence of the Supervisory Board due to the nature of the transaction or the main counterparty;

  - in case the Credit Committee decides not to comply with the Consultative Conclusion of the Parent Company in full, the final decision may be made by the Supervisory Board. However, the departure from the Consultative Conclusion shall be limited to extraordinary circumstances. Notice of the intent not to adhere (in part or in full) to the Consultative Decision should be sent to the Head of International Subsidiary Banks together with an exhaustive explanation of the reasons before the final decision is made. The above explanation shall also be sent to the ISP Head Office, which provided the Consultative Conclusion.

- on a quarterly basis, reports to the Supervisory Board regarding all decisions on loans taken after receiving consultative conclusions provided by relevant structural units of the ISP Head Office;
- approves departures from the standard provisions included into loan agreements, collateral and surety agreements, in respect of specific loan provisions, according to the binding conclusion made by the director of legal department;
- approves the necessary measures in relation to potentially distressed assets;
- approves action plans related to potentially distressed assets within Proactive Credit Management;
- regularly evaluates the effectiveness of actions and measures taken to manage specific potentially problematic assets;
- for action plans on potentially distressed assets within Proactive Credit Management, whose debt exceeds the delegated credit powers of the Bank for potentially distressed assets:
  - requests the Consultative Conclusion from the authorised credit department of Intesa Sanpaolo;
  - approves the action plan after receiving the relevant conclusion of the ISP. In exceptional circumstances, the Committee may deviate from the opinion received from the ISP by providing the Credit Department of the ISP that issued the opinion with a comprehensive explanation of the reasons behind this deviation;
- decides on any other issues in accordance with the internal regulatory provisions within its competence.

As at 31 December 2020, the Bank's Credit Committee is represented by:

Chairman:

Chairman of the Management Board – Gianluca Corrias

Members:

- Head of Lending Division – Marko Koželj;
- Director of Retail lending Department – Yemelyanova N.A. (with the voting right within her competence);
- Director of Corporate lending Department Yakymovska O.P. (with the voting right within her competence);
- Head of Retail Division – Babayev S.Z. (with the voting right within his competence);
- Head of Corporate Division Francesco Lupo (with the voting right within his competence)

In 2020, the Credit Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Credit Committee has held 70 meetings in 2020.

The Committee passed resolutions within its powers, as described above. In addition but not limited to the Committee passed resolutions regarding corporate and retail lending, changes in lending conditions, limits on interbank transactions, accreditation of insurance companies, monitoring over the execution of covenants by corporate clients.

Credit Risk Management Committee

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

The Credit Risk Management Committee is a standing decision-making body and an advisory committee tasked to provide a qualified and coordinated credit risk management within the Bank's credit authority and in accordance with applicable laws, the Group's regulations and strategic decisions of the Parent Company. The main function of the Committee is to identify and update the strategic credit risk guidelines and credit management policy that are based on continuous monitoring of the loan portfolio.

Credit Risk Management Committee according to its authoroties:

- develops and reviews the proposals for strategic guidelines of credit risk management filed for approval by the Bank's corporate bodies on a periodic basis;
- ensures that the approved strategic guidelines are applied appropriately and, if necessary, evaluates them and introduces the necessary changes on a periodic basis;
- establishes and reviews credit policies and other documents pertaining to credit risk management in accordance with the adopted credit strategies approved by the Bank's corporate bodies;
- reviews reports prepared by the risk management department and internal audit department, as well as the related credit risk action plans;
- regularly reviews the loan portfolio and relevant credit risk reports, at least in relation to the following aspects:
  - risk and profitability (credit strategies);
  - compliance with the limits (including RAF and concentration);
  - overall level of provisions;
  - portfolio quality by segments, products, industries, geography, currencies, etc.;
  - compliance with the in-house models;
  - development of the portfolio of assets on the balance sheet, decision-making in terms of necessary changes and provision of relevant recommendations;

- determines the maximum debt according to the key criteria (e.g. market segment, industry, products, ageing, currency, etc.);
- approves the internal sub-delegation of the credit authority (for performing and non-performing loans) in the amount not exceeding the autonomous powers of the Bank and in accordance with the guidelines of the Parent Company, upon receipt of the conclusion from the authorised structural units of the Head Office;
- decides on the formats of the management reporting at the national level in accordance with the rules established by the Parent Company;
- takes decision as to engaging third-party specialised collectors whitelisted by the authorised corporate body (Supervisory Board/Management Board/Tender Committee);
- approves the transfer of activities on on-site inspection of the mortgaged property (for example, inspection of the existence and physical condition of the mortgaged property) to an external specialized third party (appraiser);
- takes decisions on any other matter within its competence based on internal regulations.

As at 31 December 2020, the Credit Risk Management Committee is represented by:

Chairman:

Chairman of the Management Board - Gianluca Corrias;

Members:

- Head of Lending Division - Marko Koželj;
- Head of Retail Division - S.Z. Babayev;
- Head of Corporate Division - Francesco Lupo;
- Director of Risk Management Department (with a right of veto) - R.I. Leshchenko (with special right of veto)
- Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with voting right only regarding product management)

In 2020, the Credit Risk Management Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Credit Risk Management Committee has held 14 meetings in 2020.

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

Problem Assets Committee (PAC)

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

The Problem Assets Committee is the supreme standing decision-making committee of the Bank dealing with risky and non-performing counterparties, whose primary responsibility is taking necessary measures to prevent and mitigate the risk of credit losses associated with risky and impaired assets by acting within the Bank’s credit authority and in accordance with applicable laws and regulations of the Group.

The Problem Assets Committee according to its authorities:

- assigns classification of the Borrowers, whilst taking it into account, approving, rejecting or making changes into the classification;
- carries out necessary measures related to impaired assets, including formation of reserves, recovery measures, foreclosure of collateral, etc.;
- regularly assesses the effectiveness of actions and measures taken to manage impaired assets;
- discusses and makes decisions on entering assets into the balance sheet within the limit delegated by the Supervisory Board;
- exercises control over the management of the assets entering the balance sheet, whilst providing regular updated reports;
- discusses and makes decisions on disposal of credit assets (e.g. sale/assignment of claims) within the limits established by the Supervisory Board;
- files the transactions associated with recording assets into the balance sheet and initiatives regarding the disposal of credit assets outside the authority delegated by the Problem Assets Committee for the approval of the competent corporate body;
- for loan proposals that exceed the local delegated credit authority for impaired assets requests the Consultative Conclusion from the authorised credit department of Intesa Sanpaolo;

  i. in case of the full compliance with the Consultative Conclusion received from the Parent Company, the Problem Assets Committee takes the final decision, except where, due to the nature of the transaction or the main counterparty, the final decision must be taken by the Supervisory Board;

  ii. If the Problem Assets Committee decides not to comply with the Consultative Conclusion received from the Parent Company in full, the final decision shall be taken by the competent corporate body authorised to depart from the Consultative Conclusion. However, the departure from the Consultative Conclusion shall be limited to some extraordinary circumstances. Notice of the intent not to adhere (in part or in full) to the Consultative Decision should be sent to the Head of International Subsidiary Banks together with an exhaustive explanation of the reasons before the final decision is made. The above explanation shall also be sent to the ISP Head Office, which provided the Consultative Conclusion.

- reports quarterly to the Supervisory Board on all credit decisions made after the issuance of advisory opinions issued by the relevant unit of the Head Office;
- participates in the development and implementation of distressed assets management strategy and operational plan for non-performing assets and foreclosed assets;
- participates in the preparation of sound proposals needed to amend the strategy of management of distressed assets and the operational plan for non-performing assets and foreclosed property;
- approves decisions on debt settlement of debtors / counterparties within the powers delegated by the Supervisory Board;
- approves decisions on the management of foreclosed property, including its sale, within the powers delegated by the Supervisory Board of the Bank;
- approves standardized decisions on the management of non-performing assets;
- participates in the development of a list of key performance indicators for units and employees involved in the management of non-performing assets, participates in monitoring the effectiveness of debt management;
- provides proposals / requests for approval of measures for the creation and / or modernization of the Bank's information systems for the management of non-performing assets and foreclosed assets;
- participates in determining the templates and scope of the Bank's reporting on the management of non-performing assets, reviews management reports on the management of non-performing assets and recovered property and, if necessary, immediately participates in decisions on corrective measures to eliminate deficiencies, violations and improve management assets;
- participates in the development of regulations / procedures / orders / instructions on non-performing assets and foreclosed property;
- reviews the report on a quarterly basis on the management of non-performing assets and foreclosed property, prepared by the relevant departments;
- decides on any other issues in accordance with the internal regulatory provisions within its competence.

As at 31 December 2020, the Problem Assets Committee is represented by:

Chairman:

Chairman of the Management Board – Gianluca Corrias;

Members:

Head of Lending Division – Marko Koželj;

Director of Credit Management Department – Lytvynenko Y.O.;

In 2020, the Problem Assets Committee held meetings in accordance with the frequency requirements established by internal regulations.

The Problem Assets Committee has held 19 meetings in 2019.

The Committee passed resolutions within its powers, as described above.

Assets and Liabilities Management Committee (ALCO)

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

The Assets and Liabilities Management Committee (ALCO) is a standing decision-making and advisory committee, whose main function is to manage financial risks, assets and liabilities at the strategic and operational level in accordance with guidelines of the Parent Company, internal regulations of the Bank, legislation, rules and processes established by competent bodies.

The ALCO has the following responsibilities according to its authorities:

<u>Risk assessment and management including but not limited to:</u>

- market trend analysis, correct assessment of the market conditions with a focus on interest rates, foreign exchange rate and liquidity;
- coordinates and controls, within the powers conferred, the implementation of the Bank's strategies and policies associated with financial risks, including techniques for their measurement and control, and assesses the changes required;
- ensures efficient harmonisation of the criteria and risk measurement techniques, as well as the control procedures and principles of the Parent Company;
- within the general limits provided to the Banking Group by the Parent Company, allocate separate RAFs and other risk limits to the Group's subsidiaries for autonomous management, taking into account the applicable regulatory requirements for each subsidiary7;
- allocate to the Bank's divisions, within its powers, "operational limits" received from the Parent Company;
- ensures continuous supervision and assessment of the structure of the Bank's on-balance and off-balance sheet items;
- assesses the overall risk profile and liquidity risk of the Bank and its key operational units on the basis of reports received from responsible units on a periodic basis;
- monitors the trading book risk profile, if any, across the Bank and its operational units on the basis of reports received from responsible units on an ongoing basis;
- monitors the compliance with limits (internal and external requirements) within its authority;

- analyze any exceeds of the limits and evaluate the mitigation actions approved by the recovery plan, where necessary; ensuring the implementation of such plans and measures in a timely manner;

<u>Operational management</u>

- determines the methodological principles of operational management of banking books with a focus on financing planning, the effect of interest rates, currency risks and liquidity risks in close cooperation with the Parent Company;
- determines instructions on the proper maintenance of banking books when extraordinary events or market movements occur in close cooperation with the Parent Company;
- approves operating limits for third-party deposits, within the strategic guidelines and policies approved by the Supervisory Board of the Bank, whilst reviewing an appropriate risk profile from time to time;
- approves pricing, including interest rates, new and existing products and takes decisions on any matters related to the prices of banking products;
- in the event of market emergencies, ensures establishment of the Crisis Unit that will be authorised to take extraordinary liquidity risk measures in close cooperation with the Parent Company;
- examines the Bank's projected risk/reward position in comparison to budget requirements and prior risk/reward profile;
- evaluates the Bank's positioning compared to competitors in terms of risks and market share;

<u>Product management</u>:

For financial products the Committee should:

- evaluate, before approval by the Management Board and the Supervisory Board, draft product management policies and possible changes to them;
- analyze the market context by studying the market scenario;
- evaluate the previous product concept and identify the most appropriate approval process according to the product characteristics;
- evaluate the feasibility of proposals for new products;
- define processes and procedures to ensure the proper sale of products and provide relevant information to consumers and network staff;
- check whether the data protection rules are followed in all characteristics of the offered products;
- approve new product distribution strategies as well as information provided to distributors. In this context, the Assets and Liabilities Management Committee authorizes the use of third-party distributors based on the conclusion of the compliance unit;
- identify the approach to be used for training and sales support;
- approve the analysis of the possibility of implementation;

- study the applied results of the clearing process and approve the products, allowing them to be placed on the market;
- approve the catalog of financial products and liabilities and its subsequent changes;
- periodically review the results of after-sales monitoring activities aimed at ensuring the consistency of the characteristics of financial products and liabilities with the objectives and interests of the target market and assessing key customer satisfaction indicators and the status of complaints about these products and suggest any corrective measures;
- ensure the preservation of all relevant documentation for tracking inspections and periodic approval of the Bank's Management Board and the Supervisory Board.

<u>General</u>

- takes decisions on any matters within the competence of the ALCO in accordance with the Policy and other internal regulations;
- performs any other task as assigned by the Management Board or Supervisory Board.

As at 31 December 2020, the Assets and Liabilities Management Committee is represented by:

Chairman:

Chairman of the Management Board - Gianluca Corrias;

Members:

- Head of Lending Division - Marko Koželj;
- Head of Retail Division - S.Z. Babayev;
- Head of CFO – S.M. Basha;
- Head of Corporate Division - Francesco Lupo;
- Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with voting right only regarding product management)

In 2020, the Assets and Liabilities Management Committee held meetings in accordance with the frequency requirements established by internal regulations at least once a month.

The Assets and Liabilities Management Committee has held 20 meetings in 2020.

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

Operational Risk Management Committee (ORMC)

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

The Operational Risk Management Committee is a standing decision-making and advisory committee, whose function is to provide a qualified and competent operational risk management (including ICT/cyber risks) in accordance with the applicable law, regulations and internal procedures of the Group.

The Committee has the following responsibilities:

- assesses proposals on the approval of guidelines, policies and procedures related to the operational risk management (including ICT/cyber security) before they are submitted to the Supervisory Board for review;
- coordinates the implementation of strategies and guidelines associated with the operational risk, risk measurement techniques and tools, and control procedures in cooperation with the Parent Company and within the powers conferred;
- supervises the implementation of the operational risk management structure (including ICT/cyber security) in the Bank and test its performance from time to time; where necessary, implements changes of the Supervisory Board as appropriate;
- informs the Supervisory Board about important changes that may affect the Bank's risk profile;
- reviews the Bank's operational risk profile and controls, within the guidelines established by the Supervisory Board, isolated cases or key risks that may have a material effect on the Bank's operations, in particular:
  - submits proposals to the Supervisory Board regarding allocation of tasks between competent units of the Bank;
  - monitors performance status;
  - reports to the Supervisory Board if there are delays in or non-performance of the planned activities.
- ensures adequacy and effectiveness of the measurement and reporting tools used by the Bank by assessing the synergy between business objectives and operational risk management tools/processes. As part of this task, the Committee shall also submit proposals to the Supervisory Board for approval of appropriate risk management models in accordance with the rules approved by the Parent Company;
- receives reports from the director of risk management regarding internal and external events that will or might have a material effect;
- reviews operational risk reports from time to time before their submission to the Supervisory Board;
- assesses security and business continuity objectives before their approval by the Supervisory Board by reference to:
  (i) annual business continuity plan and

(ii) results of a periodic control of security and business continuity;

- submits proposals to the Supervisory Board regarding operational risk transfer strategies and provide recommendations to the Bank's units on the best approach to insurance, coverage and franchise based on the guidelines of the Parent Company;
- submits proposals to the Supervisory Board on a system of reporting on matters pertaining to operational risk in accordance with the rules established by the Parent Company;
- performs any other task as assigned by the Management Board.

As at 31 December 2020, the Operational Risk Management Committee is represented by:

Chairman:

Chairman of the Management Board - Gianluca Corrias;

Members:

- Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with special veto right);
- Head of COO – Giuseppe Dario Caprioli;
- Head of CFO – S.M. Basha;
- Director of Risk Management Department (with a right of veto) - R.I. Leshchenko (with special right of veto).

In 2020, the Operational Risk Management Committee held meetings in accordance with the frequency requirements established by internal regulations at least once a month.

The Operational Risk Management Committee has held 4 meetings in 2020.

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

Change Management Committee (CMC)

The Change Management Committee is responsible for the strategic management of changes as part of the Bank's general operations by determining and monitoring the Bank's project portfolio, setting priorities for projects and investments in line with the Bank's strategy, monitoring of events and expenses and solution of any problematic issues.

Key tasks of the Committee both on operational and strategic level are:

- guarantee strategic management of business changes implemented through projects and investments, in accordance with the Bank's strategy;
- determine the project portfolio, taking into account the feasibility study and the results of business cases;
- determine the priority of the project portfolio based on the study of mandatory and discretionary requirements, as well as by analyzing costs and results;
- formally approve the project portfolio and relevant guidelines for its management;
- make the necessary decisions in accordance with strategic business changes that affect the implementation of the project portfolio;
- control the allocation of key resources (financial, human and technological) in strategic projects to ensure their efficient use;
- guarantee the effective use of the Bank's capital budget for strategic initiatives, including submitting proposals for changes in the project budget allocation (increase, redistribution, etc.) to the Bank's Supervisory Board when necessary;
- approve, reject or postpone requests for changes to the project portfolio roadmap (time, volume, resources);
- review reports on the implementation of strategic projects provided by the Head of Organizational Change and Project Management and / or the relevant Steering Committees, and discuss the status of implementation with the relevant project managers (in terms of time, scope and resources);
- review the budget monitoring report of strategic projects submitted by the competent unit;
- review and discuss reports submitted to the Bank's Supervisory Board within its authority;
- perform any task assigned by the Management Board of the Bank.

As at 31 December 2020, the Change Management Committee is represented by:

Chairman:

Chairman of the Management Board - Gianluca Corrias;

Members:

- Head of Lending Division - Marko Koželj;
- Head of Retail Division - S.Z. Babayev;
- Head of COO – Giuseppe Dario Caprioli;
- Head of CFO – S.M. Basha;
- Head of Corporate Division - Francesco Lupo;
- Head of HR and Organisation Department - G.M. Nesterenko.

The Change Management Committee has convened 13 meetings in 2020.

Information Security Management Committee (ISMC)

The Information Security Management Committee is a standing advisory and decision-making committee, whose function is to ensure the effective management of the Information Security Management System of the Bank and, in accordance with applicable law, to coordinate activities of the structural units for ensuring information security, implementation and effective functioning of the Information Security Management System, and to optimise the Bank's resources, efforts and potential in relation to the Information Security Management System, the main task of which is to ensure protection of the Bank's information asset from a large variety of risks in order to achieve business continuity, risk mitigation and maximisation of profitability and business opportunities.

The Committee shall:

- take measures to implement and control the functioning of the information security and business continuity management system;
- approve and revise the Bank's regulations (Policies, Regulations and Instructions) on information security and business continuity;
- consider and submit proposals to the Management Board and the Supervisory Board of the Bank on amendments to the Bank's information security development strategy;
- coordinate the implementation of new projects, directions, strategic tasks for the Bank's information security and information security measures;
- consider, approve and control the implementation of projects for the development, implementation, operation, monitoring, verification, maintenance and improvement of ISMS;
- determine the necessary optimal resources for the implementation of information security measures;
- organize practical events to raise awareness / training of the Bank's staff on information security issues;
- ensure timely monitoring of the state of implementation and effective functioning of the ISMS of the Bank, further assess opportunities for improvement and the need for corrective action;
- identify measures to minimize information security risks;
- prepare information on the effectiveness of the Information Security Management System, which is submitted to the Management Board of the Bank and / or the Chairman of the Management Board and / or the Supervisory Board of the Bank;
- address issues related to the Information Security Management System, including the goals and principles of management, methods, measures to protect information and ensure the continuity of business processes in the information infrastructure of the Bank;
- report quarterly to the Management Board and the Supervisory Board on key issues of the Bank's information security.

As at 31 December 2020, the Committee is represented by:

Chairman:

Chairman of the Board (responsible for the Bank's IT security) – Gianluca Corrias;

Members:

- Director of Information Security and Business Continuity – O.M. Sirakov
- Head of CFO – S.M. Basha;
- Head of Retail Division - S.Z. Babayev;
- Head of Corporate Division - Francesco Lupo;
- Head of Lending Division - Marko Koželj;
- Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with special veto right);
- Director of Risk Management Department (with a right of veto) - R.I. Leshchenko (with special right of veto).

The Information Security Management Committee is has held 4 meetings in 2020.

Crisis Management Committee (CMC)

The Crisis Management Committee is a standing advisory, information and decision-taking committee, whose function is to monitor and manage risks and protect business values. It is also responsible for developing business continuity strategies to address major emergencies.

The Crisis Management Committee according to its authorities shall:

- ratify the declaration of crisis in accordance with the proposal of the General Manager for crisis management;
- establish strategies to be implemented to overcome a large-scale state of emergency;
- approve contingencies submitted by the Chief Crisis Manager;
- approve internal communication with the authorities, other operators of the banking system, the media and customers;

As at 31 December 2020, the Committee is represented by:

Chairman:

Chairman of the Supervisory Board (Chief Manager of Crisis Resolution) – Ezio Salvai

Members:

— Head of COO – Giuseppe Dario Caprioli;
— Head of Lending Division – Marko Koželj;

— Head of CFO – S.M. Basha;
— Head of Corporate Division – Francesco Lupo;
— Head of Retail Division – S.Z. Babayev;
— Director of Risk Management Department (with a right of veto) - R.I. Leshchenko (with special right of veto).
— Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with special veto right).

The Crisis Management Committee has convened no meetings in 2020.

Internal Controls Coordination Committee (ICCC)

The Internal Controls Coordination Committee is a standing advisory committee acting within the authority and competence conferred by the Supervisory Board to enhance coordination and cooperation between different controlling units of the Bank, whilst facilitating integration of the risk management process.

The Internal Controls Coordination Committee according to its authorities shall:

- supervises the implementation and operation of the integrated internal control system in accordance with the "Regulations on the integrated internal control system", facilitating coordination between the Bank's control units and the management of general measures taken for this purpose;
- reviews and disseminates action plans prepared by the Bank's control units, relevant audit results and corrective actions that ensure uniformity of general conclusions and establishment of appropriate deadlines, standards and reporting system for regulators;
- coordinates the preparation of the annual consolidated report on the control carried out in the Bank, the relevant results of inspections, identified weaknesses and corrective measures to be submitted to the Management Board and the Supervisory Board and the Parent Company;
- in case of detection of critical issues by different control units or those related to the same procedures or the same types of risk, considers the relevant issues and monitors the status of implementation of appropriate corrective measures (for example, by compiling a comprehensive Tableau de Bord);
- without affecting the independence of control units, identifies the most pressing issues that should be brought to the attention of the Chairman of the Management Board of the Bank in order to assess the need for the proposed actions and their further implementation;
- facilitates coordination between different control units during the definition and updating of the general methodology (risk assessment, classification, etc.), in order to effectively integrate the risk management process;
- periodically reviews the "Regulations on the Integrated Internal Control System" and, subject to obtaining the preliminary advisory opinion of the ICP, updates it taking into account the development of the Bank's activities, changes in the legal framework and other relevant factors;

- manages any other tasks assigned by the Board.

As at 31 December 2020, the ICCC is represented by:

Director of Internal Audit, responsible for coordinating the ICCC meetings – S.O. Bulavin.

Members:

— Director of Risk Management Department – R.I. Leshchenko.
— Head of CFO – S.M. Basha;
— Head of Compliance and AML, Responsible Officer of the Bank for Financial Monitoring - Pokhodziaieva O.V. (with special veto right);
— Head of AML/CFT Department – O.P. Kovaliov;

Director of HR and Organisation – Y.A. Dubenchuk.

The ICCC has convened 2 meetings in 2020.

The ICCC passed resolutions within its powers, as described above. Furthermore, decisions were passed on matters related to the implementation of a comprehensive internals and the Internal Controls Coordination Committee as part of its internal controls coordination mission within the Bank, on preparation of a comprehensive summary report, on adoption of rules for the formation of the integrated Tableau de Bord.

Tender Committee

The Tender Committee is a collegial governing body of the Bank that operates on an ongoing basis. The main function of the Tender Committee is to ensure the most favourable conditions for the procurement of goods, works and services based on the principles of competitiveness, transparency and a collegial approach.

The activity of the Tender Committee is regulated by the Regulations on the Tender Committee, which was approved by the Decision of the Supervisory Board No.1_20.7 of 31.01.2020.

The Committee decides on procurement activities in order to ensure banking operations related to the supply of necessary goods, works and services with a total value equal to or exceeding 25,000 euros. To achieve the set goals, the Committee:

- selects the winners of the tender and determines the main terms of agreements and contracts signed with them;
- makes decisions on certain issues related to procurement activities, at the request of the Department of Procurement and Contract Management (hereinafter - DPCM); Procurement that is not subject to the procurement process (independent categories, procurement below EUR 15,000 and procurement that is approved directly by the Supervisory Board) is not considered by the Tender Committee;
- performs other activities within the goals and objectives set by the "Procurement Rules".

As at 31 December 2020, the Tender Committee is represented by:

Chairman:
Head of CFO – S.M. Basha

Members:
- Director of Planning and Control of the Financial Division – I.V.Barkar.
- Head of CFO - Dario Caprioli
- Chairman of the Management Board – Gianluca Corrias (with a right of veto);
- Chief Accountant - Director of Accounting of the Financial Division – L.V.Ostakhova.

In 2020, the Tender Committee convened meetings in accordance with the frequency requirements established by internal regulations.

The Tender Committee has convened 18 meetings in 2020.

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

Information about preliminary resolutions to conduct significant transactions

No.	Date	Name of the authorised body passing the resolution	Total transactional threshold (UAH '000)	Value of the issuer's assets under the latest annual financial statements (UAH '000)	Ratio of total transaction threshold to the value of the issuer's assets under the latest annual financial statements (per cent)	Scope	Date of publication on the public database of the Committee or though other parties that publish information on behalf of stock market participants	Link to the corporate website with information about the resolution on the preliminary consent to conduct significant transactions
1	2	3	4	5	6	7	8	9
1.	21/02/2020	Supervisory Board	2,200,000	4,500,991	48.88	transactions on certificates of deposits issued by the NBU	21/02/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
2.	30/07/2020	Supervisory Board	2,850,000	5,764,633	49.44	transactions on certificates of deposits issued by the NBU	30/07/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi

3.	30/07/ 2020	Supervisory Board	2,850,000	5,764,633	49.44	Agreements of refinance loans from the NBU	30/07/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
4.	30/07/ 2020	Supervisory Board	2,850,000	5,764,633	49.44	Transactions on sales-purchase currency exchange on terms of SWAP with the NBU	30/07/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
5.	09/12/2020	Supervisory Board	1,021,638	5,764,633	17.7225159	Establishment of limits for financial institutions	09/12/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
6.	22/12/2020	Supervisory Board	854,528	5,764,633	14.8236236	Loans funding attraction from EBRD	23/12/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi
7.	22/12/2020	Supervisory Board	1,025,433	5,764,633	17.7883484	Loans funding attraction from EIB	23/12/2020	https://www.pravex.com.ua/o-banke/pro-nas/rozkrittya-informaciyi

According to Article 49 of the Law of Ukraine "On Joint Stock Companies" ("the Law") regarding the specifics of holding a general meeting by a company that consists of one person, the provisions of articles 33-48 on the procedure for convening and holding general meetings of a joint-stock company are not applicable to a company consisting of one shareholder. The powers of the general meeting envisaged by Article 33, the Law and internal regulations of the company shall be exercised by the shareholder on its own. Resolutions of the shareholder on matters that fall within the competence of the general meeting shall be formalised by the shareholder in the form of a written resolution. The previously mentioned resolution of the shareholder shall have the status of the minutes of the General Meeting of Shareholders.

Extraordinary general meetings were initiated by the Shareholder of the Bank.

Internal Control System

The function of the integrated system of internal controls is to build the principles underlying the functioning of internal controls of JSC "PRAVEX BANK". This is achieved by establishing appropriate policies and responsibilities of different bodies and controlling units that, in various ways, contribute to the proper functioning of the internal control system, by determining coordination methods and information flows that would help ensure the system integrity.

The Internal Control System is organised in accordance with the Regulation on the Integrated Internal Controls of JSC "PRAVEX BANK" approved by decision of the Supervisory Board No. 5_20.17 dated 30.04.2020.

Intesa Sanpaolo Group, to which the Bank belongs, considers the internal control system as a system of strategic importance since it is:

— a key element of the entire management system of Intesa Sanpaolo Group and the Bank that ensures compliance of the Bank's operations with its policies, principles and good governance standards;
— a key source of information for corporate bodies, enabling them to get an overall view of the development options available, obtain efficient safeguards against business risks, manage changes in strategic guidelines and policies and consistently adjust its organisational structure;
— an important way to ensure compliance with prudential supervision standards and promote development of efficient risk culture.

Control culture entails more than control functions but an entire corporate organisational structure (corporate bodies, other controlling and business units at all levels) when developing and applying methods of risk identification, assessment, interaction and management.

The Bank establishes an integrated internal control system at three levels in accordance with the criteria of the Parent Company, Intesa Sanpaolo.

Main characteristics of the internal control and risk management systems – risk management system is built in accordance with the Regulation of the National Bank of Ukraine No. 64 dated 11 June 2018 and constitutes a collection of duly documented and approved risk management policies, techniques and procedures that outline the sequence of actions to be taken to consistently identify, measure, monitor, control, report and mitigate all types of risks at all organisational levels. The structure of the risk management system is illustrated in the Annex to this document (Risk Mgmt System_OrgStructure.pptx). The Regulation on the Integrated Internal Control System of JSC "PRAVEX BANK", which was approved by Resolution of the Supervisory Board No. 5_20.17 dated 30.04.2020 and brought to attention by Resolution of the Chairman of the Management Board of JSC "PRAVEX BANK" No. 88 dated 04.05.2020, is an internal document of the Bank that defines the key objectives and principles underlying the integrated, adequate and efficient system of internal controls that are established and exercised across all areas of the Bank's operations and at all organisational levels. The Regulation was developed in accordance with the Regulation on the Internal Control System of Intesa Sanpaolo and the Regulation of the Management Board of the National Bank of Ukraine No. 88 dated 2 July 2019 "On the Approval of the Regulation on Organising Internal Controls in the Banks of Ukraine and Banking Groups:.
The Bank establishes an integrated internal control system at three levels. The model involves the following types of control:

• **Level I: linear control** is designed to ensure correctness of transactions (e.g. hierarchical, systematic and selective internal control) and, as appropriate, included in IT procedures. The linear control is exercised directly by operational and business units ("Level I units"), including structural units, whose sole responsibility is to monitor and report to unit managers, or as part of back-office operations. The primary responsibility for the risk management process lies with the operational and business units; in the ordinary course of their work, such units in co-operation with Level II units and, where necessary, with an organisational unit, should identify, measure or assess, monitor and minimise risks, as well as to report on the risks arising from normal operations in accordance with risk management procedures. They should meet the operating limits that are set based on risk objectives and in compliance with risk management procedures.

• **Level II: risk control and compliance** with requirements to ensure:

- proper implementation of the risk management process;
- compliance with operating limits established by different units;
- compliance of transactions with laws, regulations, internal policies, rules and procedures.
- assurance of the Bank's management that the control and risk management measures established at Level I are implemented and perform as intended.
- Units responsible for Level II controls are independent from operational and business units and are involved in determining the risk management policy and risk management process. Level II includes the following organisational units of JSC "PRAVEX BANK", if available ("Level II Control Units"):
- Compliance Unit;
- Risk Management Department.

• **Level III: internal audit system** designed to detect violations of procedures and policies and to periodically assess the completeness, correctness and functionality (in terms of performance and productivity) and reliability of the organisational structure of other components of internal controls (at Level I and Level II) and IT system (ICT audit) with a predetermined frequency depending on the nature and severity of the risk.

Internal audit is performed in JSC "PRAVEX BANK" by the Internal Audit Department. Internal audit may also be performed by the audit department of the parent company, Intesa Sanpaolo.

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

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

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

According to the audits conducted during 2019, the Internal Audit Department provided recommendations for improving the internal controls in the following areas:

- organisation of efforts aimed at counteracting the legalisation of proceeds from crime;
- conducting operations with related parties;
- maintaining transit and settlement accounts;
- FATCA;
- organisation of cash and settlement service and customer account maintenance in its branches.

Internal audit may also be performed by the audit department of the parent company, Intesa Sanpaolo.

The Bank introduces internal control procedures that, among other things, involve:

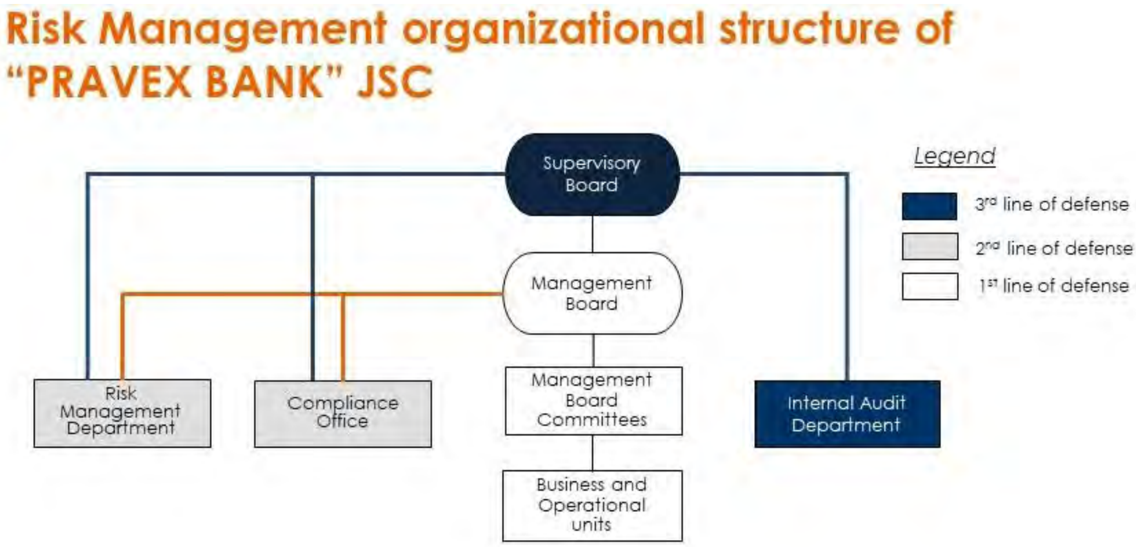
- reporting to Bank's Supervisory Board and Management Board. The Bank's management, based on the segregation of duties, on a regular basis receives and analyses performance evaluation reports in order to compare the actual results to the projected financial performance;
- multi level control over the Bank's operations. Control exercised by structural unit managers over the performance of functions and duties by employees at the unit; control exercised by the Management Board over operations of structural units of the Bank; control exercised by the Supervisory Board over activities of the Management Board;
- a list of measures to be taken by the Bank to ensure control over the physical availability of the Bank's assets, including regular stock-taking, double control, limited access to assets;
- a list of measures (actions) to be taken by the Bank to ensure control over the access to e-banking systems, databases and software, including development of authorisation procedures;
- a list of measures (actions) to be taken by the Bank to ensure control over the access to bank secrets, including development of authorisation procedures;
- a list of measures (actions) to be taken by the Bank to ensure control over the access of the Bank's employees its transactions, including development of authorisation procedures;
- recording of all Bank's transactions on the date of transaction or on the next business day, if a transaction is performed after the close of business, on weekends or during public holidays;
- a list of measures to be taken by the Bank to ensure control over the processing of accounting documents by employees designated by the Bank's director or any other authorised person;
- verifying compliance with established limits and restrictions;
- verifying the completeness, accuracy and timeliness of the financial, statistical, managerial, tax and other reporting;
- ongoing assessment of the adequacy and efficiency of internal controls.

Risk management

The banking sector operated during the coronavirus crisis in 2020, the difficult epidemiological situation created the biggest risk factor during 2020, namely: uncertainty about further development, sharp demand for business digitalization, and performing sufficient protection conditions for consumers and employees. Despite the obvious crisis, banks entered a pandemic period without significant imbalances, sufficiently capitalized and highly liquid. For the first time in history, Ukrainian banks did not increase economic instability during the crisis. On the contrary, they supported the business by providing loans. Since the crisis unfolded, most banks have quickly shifted to working online. To some extent, there has been a structural change in the format of the banking sector. Despite the temporary reduction in the number of operating branches, the availability of banking services has not decreased. In the third quarter, the economy began to grow due to high domestic demand and a favorable situation in key Ukrainian export markets. Unlike previous crises, this time the instability of the foreign exchange market was avoided. The traditional risk for the economy and the fiscal sphere is slow progress in cooperation with international financial organizations. Without such cooperation, it will be difficult to maintain continuous access to global debt capital markets and attract foreign direct investment. Consumer lending has slowed significantly as the crisis unfolded, with both market demand and supply declining. During the crisis, there was no flow of customers from banks to non-bank lenders, which indicates a fairly stable segmentation of borrowers. Since July, there has been a rapid increase in mortgages, which is a unique phenomenon for Ukraine, given the depth of the crisis and significant uncertainty. The key factor favorable for a mortgage is a significant reduction in its value. The capital adequacy of the banking sector significantly exceeds the minimum levels. Taking into account the above risk factors, the Bank strengthened its risk management system. During 2020, despite the risk factors, the Bank managed to keep the risks at a low level, as evidenced by the Bank's capital adequacy ratios.

The successful operation of the Bank as a whole is largely contingent upon the selected risk management concept. The purpose of the risk management process in banks is to limit or minimise risks, since it is impossible to avoid them completely. The risk management process is a set of rules, procedures, human, technological, organisational resources and controls aimed at identifying, measuring or assessing, monitoring, preventing and minimising (and informing senior officers about) any potential risks or risks that may arise in different segments of banking in terms of integration, interaction and relationships in the external environmental.

The Bank’s risk management structure is presented in the table below:



The purpose of the risk management process in banks is to limit or minimise risks, since it is impossible to avoid them completely. The risk management process is a set of rules, procedures, human, technological, organisational resources and controls aimed at identifying, measuring or assessing, monitoring, preventing and minimising (and informing senior officers about) any potential risks or risks that may arise in different segments of banking.

The Bank's risk management process includes the following stages:

- Identification;
- Measurement and assessment (methods and tools);
- Monitoring and control;
- Mitigation/minimisation measures;
- Reporting;
- Management.

At each stage, all Level 1, Level 2 and Level 3 units have their own responsibilities.

At this stage of the Bank's development, the most material risk of all the financial risks are: credit risk, liquidity risk, market risk and interest rate risk in the banking book. Operational risk and compliance risk are the most material of all non-financial risks. The Bank's risk management policy allows identifying and analysing the types of risks above, setting adequacy limits and conducting appropriate monitoring on an ongoing basis in accordance with the advanced administrative and information systems. The Bank also recognises other types of risk that expose the Bank's operations but are not material: strategic risk, reputation risk.

The risk management strategy seeks to achieve the following objectives:

- Maintaining risk awareness and risk culture;
- Achieving an optimal equilibrium between the risk appetite and business strategy;
- Refining the decision-taking process in respect of arising risks and their mitigation;

- Cutting losses by controlling the risk management costs and costs that might be incurred as a result of such risks;
- Ensuring a continuous and effective risk management process.

The risk management strategy involves the use of the full range of risk mitigation tools in accordance with the type of risk. The main task of the Risk Management Department is to ensure a complete segregation of activities of the units, that realise banking products, and risk management. The risk management department independently analyses and makes decisions within its competence, or gives suggestions to the relevant decision-making body if it does not have that kind of authority. The Bank is exposed to risks in each line of business. For risk mitigation purposes, the Bank has implemented a risk control and assessment system that operates in accordance with the Bank’s internal regulations, the requirements and recommendations of the NBU, Intesa Sanpaolo SpA Group, internal auditors and the Basel Committee on Banking Supervision and best practices of the leading financial institutions.

On a quarterly basis, the Bank stress tests the financial and operational risks to assess potential losses in crisis situations, determine capital adequacy and develop a response system. The Risk Management Department. reports on the results of stress tests at the meetings of the Management Board and Supervisory Board of the Bank. Stress tests are regulated by respective policies and procedures of the Bank.

The Bank's operations are mainly exposed to the credit risk, liquidity risk, market risk, interest rate risk, currency risk, operational risk and reputational risk.

Credit risk

Credit risk is the likelihood that losses or additional costs or shortfalls in the planned revenue will arise due to the borrower/counterparty defaulting on its contractual obligations. Any activity in which the result depends on a contractor, issuer of securities or borrower is exposed to the credit risk. This occurs whenever the Bank pays, commits to provide, invests funds or otherwise risks them under an actual or contingent transaction, regardless of whether the transaction is on-balance or off-balance sheet.

The purpose of credit risk management is to maximise the Bank’s risk-weighted rate of return by keeping credit risk within the acceptable parameters and ensuring that the risk decisions made within the entity are in line with the nature and level of the risk that the stakeholders in the entity are ready to assume. The Bank manages the credit risk at the level of the entire portfolio and at the level of isolated loans or transactions.

Credit risk management is controlled by the risk management department. In order to mitigate the effect that credit risk has on the Bank, the risk management department takes the following actions:

- Updates internal credit risk documents on a regular basis;
- Monitors the quality of the loan portfolio on a monthly basis taking into account the number of days past due with a breakdown by:

  - debtors or groups of counterparties;
  - debtors sharing a common economic activity;
  - debtors sharing a geographical region;
  - credit products;
- Monitors the structure of collateral on loans on a monthly basis;
- Monitors the integrity of the Bank's expected credit loss allowances in accordance with IFRS and the credit risk exposure in accordance with the NBU requirements on a monthly basis;
- Analyses the dynamics of movements in the PL/NPL portfolio and reserves in major currencies (UAH, USD, EUR) on a monthly basis;
- Monitors the level of risk appetite and limits set by the Bank and signals on the need to initiate an escalation process on a monthly basis;
- Conducts stress tests at least once a quarter;
- Develops credit risk management schemes based on both the national standards and international practices;
- Analyses new products and services in terms of credit risk exposure;
- Prepares complete credit risk reports in a timely manner for the Bank's corporate bodies in accordance with the frequency requirement and reporting forms established by the Chairman of the Management Board no. 13 dated 17 January 2019 "On Approving the List of Reports Submitted by the Credit Risk Management Unit to the Credit Risk Management Department of JSC PRAVEX BANK" and other internal documents.

The main credit risk management methods are the following:

- Creditworthiness assessment by contractor, economic activity, competitors, etc.;
- Allocation of authority on making credit decisions based on the size of the loan and potential risk exposure;
- Diversification of the loan portfolio, i.e. the allocation of funds to a large number of contractors that, if possible, have different economic activities, so as to prevent the simultaneous default of a large number of contractors; investing in different assets rather than concentrating on one or more possible instruments;
- Establishing limits on the allocation of funds to a single counterparty (concentration limitation) depending on its financial status and volume of activity to limit losses in case of default of a particular counterparty;
- Financing of liquid collateral, which allows to significantly mitigate the credit risk exposure, valuation of collateral by an independent valuation firm, monitoring and revaluation of collateral, inputs of the movable property in the State Register of Encumbrances on Movable Property;
- Implementation of alternative cash flows in the form of additional collateral, guarantees, sureties, insurances, credit loss allowances.

Market risk

Market risk can be defined as the risk of losses on the on-balance and off-balance sheet positions arising from adverse movements in market prices. In terms of regulation, the market risk arises from all positions included in the trading book, as well as from commodity and currency risk positions across the entire balance sheet.

The purpose of market risk management is to maintain the Bank's market risk exposure within the internally established parameters in the range of possible movements in the market, e.g. in the exchange rate, market price of instruments, etc.

Market risk management is controlled by the risk management department. The Bank operates only in the banking book. In order to mitigate the effect that the market risk has on the Bank, the risk management department takes the following actions:

- updates internal market risk documents on a regular basis;
- monitors the level of the open currency position on a daily basis;
- forecasts the value of the open currency position and its relation to the regulatory capital on a daily basis;
- analyses movements in the market by reference to the movements in exchange rates and market prices for securities on a daily basis;
- assesses the market risk by calculating the value at risk (VaR) for the currency risk on a daily basis;
- determines the ratio of quantitative assessment of the market risk to the Bank's profit;
- monitors the level of risk appetite and limits set by the Bank and signals on the need to initiate an escalation process on a daily basis;
- conducts stress tests at least once a quarter;
- analyses new products and services in terms of market risk exposure;
- prepares complete market risk reports in a timely manner for the Bank's corporate bodies in accordance with the frequency and form requirements established by this document and other relevant internal documents.

The Parent Company constantly monitors the market risk, to which the Bank is exposed, within the policies and procedures established by Intesa Sanpaolo S.p.A.

Interest rate risk in the banking book (IRRBB) refers to the current or anticipated risk on the Bank's capital and income arising from adverse movements in interest rates affecting the banking book position. As interest rates change, the present value and timing of future cash flows change as well. This, in turn, changes the base value of the Bank's assets, liabilities and off-balance sheet items and, thus, their economic value. Movements in interest rates also affect the Bank's income by changing the interest-sensitive income and expenses and thus, affecting, the net interest income (NII).

The purpose of managing the interest rate risk in the banking book is to maintain the effect of the Bank's interest rate risk within the internally established limits in the range of potential interest rate movements.

Interest risk management is controlled by the risk management department. In order to mitigate the effect that the interest rate risk has on the Bank's operations, the risk management department takes the following actions:

- updates internal IRRBB documents on a regular basis;
- conducts a monthly GAP analysis of interest rate assets and liabilities;
- performs a monthly analysis of the yield curve movements in major currencies (UAH, USD, EUR);
- assesses the interest rate risk in the banking book on a monthly basis by calculating movements in the economic value of equity (EVE) and net interest income (NII);
- determines the ratio of quantitative assessment of IRRBB to the Bank's profit;
- monitors the level of risk appetite and limits set by the Bank and signals on the need to initiate an escalation process on a monthly basis;
- conducts stress tests at least once a quarter;
- analyses new products and services in terms of their effect on IRRBB;
- prepares complete IRRBB reports in a timely manner for the Bank's corporate bodies in accordance with the frequency and form requirements established by this document and other relevant internal documents.

Liquidity risk

Liquidity risk refers to the risk that the Bank will be unable to meet its payment obligations due to its inability to obtain funds in the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The purpose of liquidity risk management is to ensure a high degree of assurance that the Bank is able to both meet its daily liquidity obligations and to survive a period of liquidity stress that affects both the secured and unsecured financing, which may originate from a particular bank or the whole market.

Liquidity is managed by the treasury and stock exchange department and includes the following steps: daily, weekly and monthly planning.

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

On a weekly basis, the Treasury and Stock Markets Department forecasts liquidity for up to five years on the basis of a report on liquidity gaps and, based on data received from structural units on future active and passive operations, performs liquidity modeling according to optimistic and pessimistic scenarios. its liquidity and analyzes the reasons for their changes.

On the basis of forecast information from structural subdivisions, a monthly presentation of liquidity status is made to the ALCO for a period of up to six months in terms of major currencies and liquidity ratios are forecast.

Liquidity risk management is controlled by the risk management department.
In order to mitigate the effect that the liquidity risk has on the Bank, the risk management department takes the following actions:

- conducts a daily analysis of high-quality liquid assets (HQLA) and their trends;
- every day or every ten days, performs calculations of the NBU liquidity ratios, such as N6 and LCR in all currencies and foreign-currency LCRs;
- calculation of the new NSFR indicator, the limit for which was set by the NBU from April 1, 2021, was successfully implemented;
- contrsol internal concentration limits established by respective documents on a daily bass;
- ensures respective reporting and monitoring.

Long-term liquidity management includes:

- ensuring that the Bank has sufficient funds to cover its liquidity needs during established periods;
- creating conditions for avoiding a distressed sale of assets with the loss of value in order to meet the Bank's obligations;
- creating conditions for minimising any additional need in HQLAs and additional resources of higher value;
- compliance with the NBU liquidity ratios;
- achieving strategic objectives of the Bank.

Management of liquidity in case of crisis:

- identification and continuous monitoring of early alert signals, determining procedures to be implemented when the lack of liquidity becomes evident;
- legalisation of actions of managers responsible for managing liquidity in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- preparing a clear list of immediate measures and intervention to resolve the crisis.

A liquidity crisis can be triggered by a market situation or any specific banking situation; as far as duration, it can be classified as temporary (for a few days) or long-term. Liquidity crisis management caused by a deterioration of the Bank's financial position is set out in the Contingency Liquidity Plan (CLP).
The Contingency Liquidity Plan ensures:

- identification and continuous monitoring of early alert signals, determining procedures to be implemented when the lack of liquidity becomes evident;
- legalisation of actions of managers responsible for managing liquidity in a stressful situation, which will allow them to quickly change the structure of assets and liabilities;
- preparing a clear list of immediate measures and intervention to resolve the crisis.

The early prevention system can alert you to three different situations:

- normal status;
- alert;
- maximum alert.

Early alarms are aimed at identifying signs of a potential lack of liquidity, both systemic (market) and specific (intrabank).

Operational risk

Operational risk is defined as the probability of losses or additional losses or loss of planned income due to deficiencies or errors in the organization of internal processes, intentional or unintentional actions of bank employees or others, failures of bank information systems or due to external factors. Operational risk includes legal risk, but should exclude reputational risk and strategic risk.

The purpose of operational risk management is the timely detection and minimization of operational risk, as well as its prevention. Priority is given to ensuring maximum preservation of assets and capital by reducing or preventing possible losses. The Bank adopts an operational risk management strategy based on sound management principles and aimed at ensuring long-term strength and continuity for the Bank, as well as achieving an optimal balance between growth and profitability and emerging risks. The Risk Management Department oversees the management process. operational risks. The Risk Management Department is responsible for appointing risk coordinators (ORMRs) who are responsible for managing operational risks in their unit.

In order to mitigate the effect that the operational risk has on the Bank, the risk management department takes the following actions:

- updates internal operational risk management documents on a regular basis;
- coordinates the appointments of ORMRs;
- conducts regular training sessions for and testing of ORMRs;
- manages the database of operational risk events;
- develops, monitors and reports on key risk indicators;
- monitors and controls risk appetites, sets operational risk limits and signals on the need to initiate an escalation process;
- carries out the self-diagnosis on an annual basis, which includes: business environment assessment and scenario analysis;
- conducts stress tests at least once a quarter;
- analyses new products and services in terms of operational risk exposure;
- analyzes operational risk by outsourced functions;
- provides methodological, analytical and consulting support to the Bank's operational risk management units
- prepares complete operational risk reports in a timely manner for the Bank’s corporate bodies in accordance with the frequency and form requirements established by this document and other relevant internal documents.

In order to mitigate the effect that the operational risk has on the Bank, the business line operational risk managers take the following actions:

- improves knowledge of operational risk management by means of training and testing sessions on a regular basis;
- implements internal operational risk management documents within its unit on a regular basis;
- participates in the construction of process maps (technological maps), the owners of which are units that also organize these processes, as well as in the construction and implementation of an effective system of internal control;
- ensures consolidated and timely communication of operational risk events that occurred within their unit;
- suggests managerial actions to mitigate the operational risk within its unit;
- ensures that key risk indicators identified at their unit are properly assessed;
- participates in a self-diagnosis as part of the expert assessment of risk factors, as well as in the scenario analysis;
- participates in the stress testing of operational risk on a quarterly basis;
- ensures that the unit identifies and assesses operational risks inherent in new products / significant changes in banking activities
- implements mitigation measures identified for its unit.

Also, the Bank has developed a system of liquidity concentration limits, which ensures the prevention of significant outflows of the Bank's liquidity and the acceptance of excessive risk appetites

Based on the analysis of event statistics, the Bank has developed key risk indicators (KRIs) and limits. The Bank monitors the indicators to identify and prevent risks that may occur in an event on a monthly basis. These indicators shall be reported on a monthly basis to the members of the Management Board of the Bank with appropriate recommendations for elimination or mitigation of the negative effect of risks, if necessary.

Compliance risk

Compliance risk is the risk of the Bank incurring financial losses, penalties, reputational losses due to the non-compliance by the Bank or its employees with the law of Ukraine, regulations of the National Bank of Ukraine, internal regulations of the Bank, including the code of ethics and rules for the prevention and resolution of conflicts of interest.

Compliance risk is the risk of legal or administrative penalties, pecuniary financial damages or reputational damages as a result of violations of statutory provisions (laws and regulations) or self-governance codes (e.g., articles of association, codes of conduct, self-government codes). Compliance risk is related to sanctions and financial losses from the operational risk and damages to reputation associated with reputational risk.

Reputation risk

Reputation risk is the existing or potential risk to income and equity that the Bank faces as a result of an adverse perception of the financial institution's identity by customers, contractors, shareholders (stakeholders) or regulators. The primary purpose of goodwill risk management is to limit or minimize the risk to income and capital that occurs or may occur due to adverse perception of the Bank's image by customers, contractors, shareholders (stakeholders) or regulatory authorities.

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

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

Reputational risk is a component of compliance risk.

The Bank considers the so-called conduct risk included in compliance risk, which, in the absence of a clear regulatory reference, is defined as the risk of judicial or administrative sanctions, material financial damage or damage to reputation due to the conduct of:

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

Information technology risk

Information technology risk is the probability of an event and implications arising from the use of information technology.

IT risks are divided into two types:

- risks that might arise from actions of employees;
- technology risks that include equipment failures or shutdowns.

The IT risk management includes risk identification, assessment and mitigation measures to reduce the risk down to an adequate level.

Risk identification involves a periodic analysis of the Bank's systems to the extent that changes or problems arise.

The risk assessment takes into account the probability of a risk, the magnitude of consequences and potential for recurrence.

The type and list of risk mitigation measures are determined by reference to the nature of the risk and the threats that it carries.

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

The Bank manages risks based on the business continuity, predictability and hedging principle. The risk management methods and systems used by the Bank are being modified constantly to reflect changes in the market conditions and products. According to Article 44 of the Law of Ukraine "On Banks and Banking Activities", the Bank has a risk management system consisting of standing committees: Credit Committee, Credit Risk Management Committee, Problem Assets Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee, Internal Controls Coordination Committee, Crisis Management Committee.
The Risk Management Department is one of the standalone structural units that ensure the Bank's risk management.
The Supervisory Board of the Bank defines the overall risk management strategy, approves and revises the Risk Management Concept (Policy), establishes a general risk tolerance level. The Management Board is responsible for all the risks assumed by the Bank and delegates some of its functions to the dedicated standing committees. The Bank is managed, including risk management, by the Management Board on the principles approved by the Supervisory Board within the overall strategy and Risk Management Policy. Monitoring and control are carried out by the Management Board and standing committees under the guidance of the Supervisory Board as the Bank's supreme supervisory body. The risk management unit is independent from the business line directors, which is confirmed by its subordination to the Supervisory Board.

The Credit Committee is the highest standing committee of the Bank charged with decision-making as to performing counterparties. Its primary function is to make credit decisions in accordance with the strategic credit guidelines and policies, whilst acting within the Bank's lending authority and in accordance with laws and regulations of the Group.

The Credit Risk Management Committee is a standing decision-making body and an advisory committee tasked to provide a qualified and coordinated credit risk management within the Bank's credit authority and in accordance with applicable laws, the Group's regulations and strategic decisions of the Parent Company. The main function of the Committee is to identify and update the strategic credit risk guidelines and credit management policy that are based on continuous monitoring of the loan portfolio.

The Problem Assets Committees is the supreme standing decision-making committee of the Bank dealing with risky and non-performing counterparties, whose primary responsibility is taking necessary measures to prevent and mitigate the risk of credit losses associated with risky and impaired assets by acting within the Bank's credit authority and in accordance with applicable laws and regulations of the Group.

The Assets and Liabilities Management Committee is a standing decision-making and advisory committee, whose main function is to manage financial risks, asses and liabilities at the strategic and operational level in accordance with guidelines of the Parent Company, internal regulations of the Bank, legislation, rules and processes established by competent bodies.

The Operational Risk Management Committee is a standing decision-making and advisory committee, whose function is to provide a qualified and competent operational risk management (including ICT/cyber risks) in accordance with the applicable law, regulations and internal procedures of the Group.

The Internal Controls Coordination Committee is a standing advisory committee acting within the authority and competence conferred by the Supervisory Board to enhance coordination and cooperation between different controlling units of the Bank, whilst facilitating integration of the risk management process.

The Crisis Management Committee is a standing advisory, information and decision-taking committee, whose function is to monitor and manage risks and protect business values. It is also responsible for developing business continuity strategies to address major emergencies.

Information about the external auditor

LIMITED LIABILITY COMPANY "BAKER TILLY UKRAINE"

LLC "BAKER TILLY UKRAINE" – certificate of registration in the Register of Auditors and Auditing Entities maintained by the Auditors Chamber of Ukraine in accordance with the Law of Ukraine "On the Audit of Financial Statements and Audit Activities" No. 2258-VIII dated 21 December 2017 (registration number 2091, registration date 19 October 2018) No. 2397 in accordance with the Decision of the Audit Chamber of Ukraine dated 1 January 2001.

LLC "BAKER TILLY UKRAINE" renders audit services to JSC "PRAVEX BANK" in the audit of financial statements as at 31 December 2020 and for the year then ended.

In addition to the audit of financial statements of JSC "Pravex Bank" prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2020 and for then ended, the audit company also conducted the first stage of assessing the Bank's sustainability, taking into account the requirements of the National Bank of Ukraine.

The Auditor's key personnel engaged in the audit of financial statements for 2020 is represented by:

Gagik Nersesian (partner)

Auditor's registration number in the Register of Auditors and Auditing Entities: No. 100799.

During the year, the Audit Chamber of Ukraine did not charge any fines from LLC "BAKER TILLY UKRAINE" and no facts of misstatements, as confirmed by the auditor's opinion, were identified by authorities charged with the state regulation of financial services markets.

ПРАВЕКС БАНК
Management Report as at 31 December 2020 and for the year then ended

Final provisions

In 2020, the Bank had no disposals of assets that would exceed the limit established by its Articles of Association. Assets that exceeded the limit established by the Articles of Association were not measured for disposal purposes.

During 2020, the Bank conducted no transactions with derivative securities as an issuer.

Authorised for issue and signed by

Chairman of the Management Board
JSC "PRAVEX BANK" **Gianluca Corrias**

Chief Accountant
JSC "PRAVEX BANK" **L.V. Ostakhova**

Date: **17 March 2021**

MANAGEMENT REPORT OF JSC "PRAVEX BANK" as at 31 December 2019 and for the year then ended is prepared in accordance with:

- the Law of Ukraine "On Banks and Banking Activities";
- the Law of Ukraine "On Accounting and Financial Reporting in Ukraine";
- the Law of Ukraine "On Securities and Stock Market";
- the Law of Ukraine "On Joint Stock Companies";
- the Law of Ukraine "On Financial Services and State Regulation of the Financial Services Markets";
- "Regulation On the Procedure for a Bank to Submit an Audit Report on the Findings of the Annual Audit of Financial Statements" approved by Resolution of the Board of the National Bank of Ukraine No. 90 dated 2 August 2018;
- "Guidance on the Procedure for the Preparation and Publication of Financial Statements in Ukrainian Banks" approved by Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011.

Supervisory Board Report and Assessment Report of the Supervisory Board for 2020

Composition and competence of the Supervisory Board

The Supervisory Board of "PRAVEX BANK" JSC **is a body that carries out control over the activity of the Management Board, ensures protection of the rights of depositors, other lenders and shareholders of "PRAVEX BANK" JSC (hereinafter reffered to as "the Bank").**

In its activity the Supervisory Board is guided by the Bank's Articles of Association, Regulation on the Supervisory Board and applicable legislation of Ukraine. The Bank's internal regulations governing the activity of the Supervisory Board provide for all, without limitation, the requirements of the legislation established for the Supervisory Board, take into account the requirements of regulatory acts of the National Bank of Ukraine, methodological guidelines of the National Bank of Ukraine on corporate governance issues and Corporate Governance Principles for Banks of Basel Committee on Banking Supervision.

The number of the Members of the Supervisory Board complies with the requirements of Article 39 of Law of Ukraine *On Banks and Banking Activity* and clause 10.3.3. of the Bank's Articles of Association.

As of December 31, 2020, the Supervisory Board is composed by the following seven Members:

- Mr. Ezio Salvai, Chairman of the Supervisory Board,
- Mr. Corrado Casalino, Deputy Chairman of the Supervisory Board, Independent Member,
- Mr. Fabrizio Mallen, Independent Member,
- Ms. Laura Febbraro, Independent Member,
- Mr. Andrea Fazzolari, a representative of the Shareholder,
- Mr. Emanuele Collini, a representative of the Shareholder,
- Mr. Lorenzo Fossi, a representative of the Shareholder.

Composition and competence of the Supervisory Board

During 2020, the following **changes took place within the composition of the Supervisory Board of the Bank**: on October 22, 2020, Ms.Laura Febbraro, independent Member, was elected to the Supervisory Board due to voluntary termination of powers of Mr. Sergio Nicola, independent Member.

Members of the Supervisory Board carry out their activities under the terms of civil law agreements on provision of services of Members of the Supervisory Board and are not Members of the Management Board of “PRAVEX BANK” JSC, they do not hold any other positions in the Bank under the employment agreement (contract) and do not provide other services to the Bank, apart from the services of being the Member of the Supervisory Board, in accordance with civil law agreements.

More than one third of the Supervisory Board is composed by independent Directors, three Directors in total.
Individual distribution of functions and powers of the Members of the Supervisory Board is made by a Decision of the Supervisory Board. Powers (rights and obligations), functions and responsibilities of the Supervisory Board and its Committees are reviewed, where required, in case of introduction of amendments to the legislation of Ukraine, regulatory acts of the National Bank of Ukraine, in order to implement current requirements of international law on corporate governance and due to the amended Bank's Development Strategy as a whole, changed organizational structure of the Bank, etc.

Composition and competence of the Supervisory Board

In 2020, the Supervisory Board **established the following two Committees: the Risk Management Committee and the Audit Committee.**

The Committees of the Supervisory Board are working bodies of the Supervisory Board, which aim to examine deeply the issues to be considered and approved by the Supervisory Board.
The Committees of the Supervisory Board **are presided by the Independent Members.**

The Supervisory Board has the right to inspect accounting data, performance of any management functions of the Bank, documents and reports of the Bank on management issues, keeping of documentation on the Bank's activity. The Supervisory Board inspects the annual financial statements, including proposals on distribution of income and the annual report of the Management Board, and submits the relevant proposals to the General Meeting of Shareholders. The Supervisory Board has other rights provided by the Bank's Articles of Association, the Regulations on the Supervisory Board and the Bank's internal regulations. The Chairman and the Members of the Supervisory Board are personally responsible for the performance of the duties assigned to them. The Member of the Supervisory Board shall not delegate his / her powers to another party.

Additional functions and powers of the Members / the Chairmen of the Committees of the Supervisory Board are defined in the Regulations on the relevant Committees.

The Bank draws up **a schedule of meetings for the year and an annual working plan for the Supervisory Board.** The meetings of the Supervisory Board are convened as necessary, but at least once a quarter.

The vast majority of the meetings of the Supervisory Board were held with the participation of all the Members. The exception is the Members' vacation, business trip or sick leave. The Decisions of the Supervisory Board regarding all issues are made by a simple majority of votes of the Members of the Supervisory Board who participate in the meeting and have a voting right. Each member of the Supervisory Board has one vote during the meeting. The Chairman of the Supervisory Board has the right to a casting vote in case of equal distribution of votes of the Members of the Supervisory Board during decision-making process.

Record attendance

In 2020, 17 meetings of the Supervisory Board were held:

- by means of personal presence or video-conference: 10
- by means of e-mail: 7

Mr. Ezio Salvai, the Chairman of the Supervisory Board,
attended 16 out of 17 meetings of the Supervisory Board

Mr. Corrado Casalino, the Deputy Chairman of the Supervisory Board, Independent Member,
attended 17 out of 17 meetings of the Supervisory Board
attended 3 out of 3 meetings of the Audit Committee
attended 4 out of 4 meetings of the Risk Management Committee

Mr. Fabrizio Mallen, Independent Member,
attended 17 out of 17 meetings of the Supervisory Board
attended 4 out of 4 meetings of the Risk Management Committee

Ms. Laura Febbraro, was elected as Independent Member of the Supervisory Board by Decision of the Shareholder dd. 22.10.2020, based on a written Decision of the National Bank of Ukraine dd. 23.07.2020,
attended 5 out of 17 meetings of the Supervisory Board
attended 1 out of 3 meetings of the Audit Committee

Mr. Andrea Fazzolari, a representative of the Shareholder,
attended 15 out of 17 meetings of the Supervisory Board

Mr. Emanuele Collini, a representative of the Shareholder,
attended 17 out of 17 meetings of the Supervisory Board
attended 4 out of 4 meetings of the Risk Management Committee

Mr. Lorenzo Fossi, a representative of the Shareholder,
attended 17 out of 17 meetings of the Supervisory Board
attended 3 out of 3 meetings of the Audit Committee

Mr. Sergio Nicola, Independent Member of the Shareholder,
attended 10 out of 17 meetings of the Supervisory Board
attended 2 out of 3 meetings of the Audit Committee
Mr. Nicola's powers were terminated on 17.10.2020 based on a written notification provided to the Bank on 02.10.2020.

PRAVEX BANK

Decision making process

The procedures used in the **decision-making process of the Supervisory Board** are defined in the Regulation on the Supervisory Board of “PRAVEX BANK” JSC that is available on the Bank's official website. The Activity Plan of the Supervisory Board for the year is drawn up by the Corporate Secretary and approved by the Supervisory Board. The Activity Plan is drawn up according to the analysis of issues considered last year, taking into account the list of reports of responsible structural units of the Bank, especially risk management reports, review of the Bank's activity results on a quarterly basis, statements of financial position of the Bank.

The agenda of the meetings of the Supervisory Board is developed on the basis of the Activity Plan of the Supervisory Board and according to the proposals received by the Corporate Secretary, which shall be considered at the meeting of the Supervisory Board. A Member of the Supervisory Board may submit proposals for amendments to the proposed agenda before the date of the meeting. The Supervisory Board may supplement the agenda with urgent issues and exclude from the agenda those issues that have not been completely processed by the Bank's services.

In order to manage the Bank efficiently, the Supervisory Board held **regular meetings with the Chairman / Members of the Management Board, the Heads of control functions to discuss the received information.**
Communication between the Management Board and the Supervisory Board takes place via reporting of the Members of the Management Board to the Supervisory Board on the results of their activities. Furthermore, continuous (daily) communication took place via e-mail, conference calls, meetings, telephone, etc.
Most of the meetings of the Supervisory Board were dedicated to approval of reports of management bodies and internal audit service, organizational structure of the Bank, regulations on structural units and internal regulations of the Bank, the Supervisory Board considered HR-related issues, issues on approval of the Development Strategy and Business Plan of “PRAVEX BANK” JSC as well.

The decision on defining the audit company, which will carry out external audit of the Bank's financial reporting and assess the stability of the Bank, was taken, the terms of the agreement with the selected auditor were approved.

Assessment of efficiency of the Supervisory Board

The Supervisory Board fully complies with the Bank's requirements for available skills and experience in accordance with Bank's size, given the relevant experience and knowledge of the Chairman and the Members of the Supervisory Board, which is sufficient for full and detailed consideration of all issues submitted to consideration by the Supervisory Board. Variety of educational areas and work experience of all the Members of the Supervisory Board completely covers the areas of banking products / services and risk profile, including, but not limited to, corporate governance, planning and control, strategic planning, capital markets. **Independent Directors of the Supervisory Board completely meet the requirements for independence of members of the Supervisory Board.**

The Chairman and the Members of the Supervisory Board therefore have diverse work experience and education, which ensures the **relevant level of their collective suitability** taking into account the Bank's size and peculiarities of activities, the nature and scope of banking and other financial services, risk profile, systemic importance, the activity of the banking group, to which the Bank belongs.

The Members of the Supervisory Board **collectively have the knowledge, skills and experience necessary for the Supervisory Board to exercise its powers**, it means that the Supervisory Board as a collective body has relevant understanding of those areas of the Bank's activities, for which the Members are collectively responsible, as well as has experience and skills to carry out the effective governance of the Bank. The Supervisory Board has a sufficient number of Members, who have knowledge, skills and experience regarding all areas of the Bank's activity, which enables them to discuss issues, on which decisions are made in a professional way.

The Members of the Supervisory Board openly and critically discuss issues at the meetings of the Supervisory Board. The opinion of each Member of the Supervisory Board is always heard and discussed before the final decision is made. Based on the results of the discussion, the Members of the Supervisory Board come to a common decision that is in the best interests of the Bank. Therefore, there is a high level of interaction between the Members of the Supervisory Board during its meetings, which is confirmed by the content of the Minutes of the Meetings of the Supervisory Board.

Decisions made by the Supervisory Board are duly executed by the Management Board and structural units of the Bank. The Supervisory Board develops high ethical and professional standards, meets such standards and ensures their introduction and compliance with them by the Heads of the Bank, Heads of control functions and other employees of the Bank.

Annual self-assessment and assessment of efficiency of activity of the Supervisory Board

The Bank conducted an annual self-assessment and assessment of efficiency of activity of the Supervisory Board in 2020 via a written survey.

According to the results of the survey, the Bank came to the conclusion that all the Members of the Supervisory Board devote sufficient time to exercising of their duties as the Members of the Supervisory Board of “PRAVEX BANK” JSC. Independent Members of the Supervisory Board, in addition to their activities in such body, are engaged exclusively in scientific and social activities. The Chairman, retired, holds the same position in another foreign bank, part of Intesa Sanpaolo Group. The Member of the Supervisory Board, who are representatives of the Shareholders, additionally hold positions in the governing bodies of the Sole Shareholder. However, they have the opportunity to devote sufficient time to the effective performance of their functions within the Supervisory Board.

In addition, **the Bank conducted an annual verification of the compliance of the Bank management (including the Members of the Supervisory Board) and the Head of Internal Audit** with the qualification requirements via their personal survey. According to the results of such verification, it was found out that all the Members of the Supervisory Board comply with the requirements for business reputation, as well as independent Members of the Supervisory Board comply with the requirements for independence established by law and regulations of the National Bank of Ukraine. Additional requirements for business reputation of the Members of the Supervisory Board and the Members of the Management Board, as well as for the independence of the Members of the Supervisory Board were not established by the Bank. The relevant report was approved by the Supervisory Board on December 9, 2020 (Minutes No.16_20 dd. 9.12.2020).

PRAVEX BANK

Conclusions

Corporate governance is efficient and organized by the Bank taking into account the size, peculiarities of the Bank's activity, nature and scope of banking and other financial services, risk profile, systemic importance, the activities of the international banking group, to which the Bank belongs, in accordance with the requirements of the legislation, recommendations of the National Bank of Ukraine and Corporate Governance Principles for Banks of Basel Committee on Banking Supervision. The organizational structure of the Bank meets its needs, size, special aspects of the Bank's activity, nature and scope of banking and other financial services, risk profile, systemic importance and the activities of the banking group, to which the Bank belongs, as well as enables the Supervisory Board and the Management Board to duly exercise their duties, in accordance with the requirements of the legislation and contributes to efficient decision-making process of each of the governance bodies and duly governance of the Bank in general.

There is a clear distribution of powers and responsibilities, a relevant level of accountability and a system of checks and balances. When the internal control and risk management measures are carried out, the Bank sticks to three-line-security model, according to which the internal control and risk management measures are carried out on the first line of security - by all business and support functions, on the second line – by the risk management and compliance structural units, on the third line – by the internal audit function.

The risk profile is defined by the Risk Management Strategy of “PRAVEX BANK” JSC and the set of limits within the management of each of the significant types of risk defined in the Declaration. The Bank's risk profile is closely related to the Bank's Development Strategy and is subject to annual review.
The Bank's internal documents comply with the requirements of the legislation and have been developed in consideration of the methodological guidelines of the National Bank of Ukraine. The Supervisory Board reviewed the internal documents of the Bank on a regular basis, taking into account the efficiency of their earlier version and the results of discussions regarding the need for their improvement with the Management Board / control functions of the Bank.

During 2020, the Supervisory Board dedicated a lot of time to business continuity issues in the conditions of COVID-19 crisis, ensuring health and lives of its employees, as well as remote work. One of the key issues was improving of the Bank's IT systems and compliance with the requirements of the legislation.
In 2020, the Supervisory Board followed the annual plan and fulfilled all the tasks that it set, therefore all the goals for 2020 were achieved by the Supervisory Board.

Sincerely,
Chairman of the Supervisory Board of “PRAVEX BANK” JSC
Ezio Salvai

PRAVEX BANK

REPORT
on remuneration for the Members of the Management Board of "PRAVEX BANK" JSC for 2020

According to the requirements of the applicable Legislation in force and of the Articles of Association of "PRAVEX BANK" JSC ("Bank"), the Management Board of "PRAVEX BANK" JSC is composed by seven Members, who are elected by Decision of the Supervisory Board.

As of January 1, 2020 the Management Board was initially composed by the following five Members:

- Mr. Gianluca Corrias, Chairman of the Management Board of "PRAVEX BANK" JSC
- Mr. Semion Babaiev, Deputy Chairman of the Management Board, Head of Retail Division
- Mr. Francesco Lupo, Member of the Management Board, Head of Corporate Division
- Mr. Marko Koželj, Member of the Management Board, Head of CLO Division
- Mr. Giuseppe Dario Caprioli, Member of the Management Board, Head of CFO Division.

The composition of the Management Board was later changed in accordance with Decision No. 2_20.13 of the Supervisory Board of "PRAVEX BANK" JSC:

- Ms. Olena Pokhodziaieva was appointed to the position of Head of Compliance and AML Department starting from 02.03.2020; the Responsible officer of the Bank for financial monitoring (AML Officer) and Member of the Management Board of the Bank starting from 01.04.2020.
- Mr. Giuseppe Dario Caprioli was transferred from the position of Head of CFO Division, Member of the Management Board, to the position of Head of COO Division, Member of the Management Board on 04.03.2020.
- Ms. Svitlana Basha was transferred from the position of Head of Planning and Control Department of CFO Division to the position of Head of CFO Division and was elected as a Member of the Management Board on 04.03.2020.

As of December 31, 2020, the Management Board is therefore composed by the following Members:

- Mr. Gianluca Corrias, Chairman of the Management Board of "PRAVEX BANK" JSC
- Mr. Semion Babaiev, Deputy Chairman of the Management Board, Head of Retail Division
- Ms. Svitlana Basha, Member of the Management Board, Head of CFO Division
- Mr. Francesco Lupo, Member of the Management Board, Head of Corporate Division
- Mr. Marko Koželj, Member of the Management Board, Head of CLO Division
- Mr. Giuseppe Dario Caprioli, Member of the Management Board, Head of COO Division
- Ms. Olena Pokhodziaieva, Member of the Management Board, Head of Compliance and AML Department,.

All the Members of the Management Board have an employment relationship with the Bank under the concluded employment agreements.
In 2020, the remuneration of the Members of the Management Board of "PRAVEX BANK" JSC was paid according to the terms of the concluded employment agreements for their participation in the meetings / committees of the Management Board over the year, as well as for performance of their functional duties in accordance with the powers assigned to them under the internal documents of the Bank and their respective employment agreements.

The amount of the monthly remuneration of each Member of the Management Board is set by their respective employment agreements and it is paid - in line with the terms of their mandate - twice a month, according to Pravex regular payroll.

The remuneration to be paid to the Members of the Management Board in accordance with the specified remuneration system consists of:
fixed component
variable component

The fixed component is the component of the remuneration that is stable and irrevocable in nature and determined on the basis of pre-established and non-discretionary criteria such as: the contractual framework, the role held, the responsibilities assigned, the particular experience and the expertise acquired by the employee.
The following is considered fixed component of remuneration:
the gross annual remuneration which reflects the level of professional experience and seniority of the personnel.
The variable component is linked to the employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of:
short-term variable component, paid through the incentive systems - annual performance bonuses.

The overall yearly (fixed) remuneration paid to the Members of the Management Board of "PRAVEX BANK" JSC within the year 2020 amounted to EUR 488,535.20 = UAH 16,971,517.28 after taxation and includes **the basic salary and other compensation payments under their respective employment agreements** (including the cost of the benefits provided therein, such as expenses for the accommodation in Kiev, compensation for home-trips cost, medical insurance, use of a company car, expenses for business trips and registration of all work permits in Ukraine).

The overall yearly (variable) remuneration paid to the Members of the Management Board of "PRAVEX BANK" JSC within the year 2020 amounted to EUR 94,144.79 = UAH 3,270,552.39 after taxation and includes the Performance Bonus paid with reference to the results of work in 2019.

The remuneration (fixed and variable) accrued to the Members of the Management Board was paid in cashless form by means of its crediting to their accounts in the national currency of Ukraine.

The remuneration system for the Members of the Management Board is a part of the Remuneration and Incentive Policies of “PRAVEX BANK” JSC approved by Decision of the Supervisory Board No. 7_20.10 dd. 26.06.2020 that is developed and implemented on the basis of the Group Remuneration and Incentive Policies of the Sole Shareholder of the Bank - Intesa Sanpaolo S.p.A..

There is a ratio of fixed and variable part of remuneration and it is expressed as a percentage of the total amount of remuneration, namely the maximum payable variable remuneration is determined in general in 100% of the fixed remuneration, with the exception of the roles belonging to the Company Control Functions (all of them, independently from the position covered whether managerial or non-managerial) for which a cap of 33% of the fixed remuneration is set.

As for all the Bank personnel, also for the Members of the Management Board the Incentive System is subject to the minimum activation conditions requested by the Regulator and the non-achievement of even only one of those conditions shall result in non-activation of the Incentive System.

These conditions are based, on a priority basis, on the principles envisaged by the prudential regulations concerning sound capital base and liquidity, represented by the consistency with the limits set as part of both ISP Group RAF and “PRAVEX BANK” JSC RAF as well as the principles of financial sustainability of the variable component that consist in checking the availability of sufficient economic-financial resources to meeting the expenditure requirement.

The Incentive System for Management Board Members aims to guide the behaviour and managerial actions towards reaching the objectives set for the Bank’s strategy and contained in the ISP Group Business Plan and to reward the best annual performances assessed with a view to optimize the risk/return ratio. This System is formalized through the assignment of individual Performance Scorecards, which include both KPIs of an economic-financial nature (such as growth, profitability, productivity and cost of Risk / sustainability) and non-financial KPIs, which are linked to strategic actions or projects that represent the enabling factors for the achievement of financial KPIs or that contribute to the achievement of Bank’s Strategy and ISP Group Business Plan objectives.

The KPIs identification process and the related target setting and performance evaluation take into consideration the most significant economic and financial indicators for the achievement of the budget objectives, periodically monitored through internal reporting tools and available at Bank and/or Division and/or consolidated level. The Performance Scorecards guarantee the balance between each Manager’s area of responsibility and the managerial solidarity/teamwork. To each KPI is assigned a weight equal to at least 10% to ensure the relevance of the objective and up to 30%. Financial KPI's are not applied to Corporate Control Functions. These Functions are **assessed only by non-financial** KPIs for a total weight of 100%.

PRAVEX BANK

Report on remuneration for the Members of the Management Board of “PRAVEX BANK” JSC

Specifically, for what regards the evaluation of the results and the definition of the individual awarding of the Performance Bonus for the Management Board Members (including the Chairman) those are in charge of the Supervisory Board in collaboration with the competent functions at Bank, ISB Division and ISP Group level. In any case, the individual Performance Bonus is defined, taking into account the results of the performance evaluation, both in absolute and relative terms.

The payment of the individual Performance Bonus is, in any case, subject to the verification of the absence of the so-called individual compliance breaches. Failure to comply with the individual access conditions implies both the non-payment of the bonus accrued in the same year of the compliance breach is committed and the deletion of the deferred portions of the accrual conditions referred to the same year (if any).

Finally, it is noteworthy that:
the evaluation of the performance scorecard covers a period of one business year;
the Performance Bonus will not be paid, if the total score of the performance evaluation is lower than 80% for the Members of the Management Board who belong to Business and Governance functions or lower than 90% for those who belong to Corporate Control functions;
a pro-quota Performance Bonus may be paid only if the person has been employed for at least six months.

In 2020, no facts triggering the possibility for the Bank to reclaim the variable remuneration previously paid to the Members of the Management Board were found out.
But, according to the Remuneration and Incentive Policies 2020 the Bank always reserves the right to activate clawback mechanisms, namely the return of bonuses already paid, as required by regulations, in case of:
disciplinary initiatives and provisions envisaged for fraudulent behaviour or gross negligence by personnel, also taking into account the relative legal, contribution and fiscal profiles;
behaviour non-compliant with the legal and regulatory provisions, Articles of Association or any codes of ethics and conduct established ex ante by the Group and from which a “significant loss” derived for the Bank or the customer.

These mechanisms may be applied in the 5 years following the payment of an individual portion (up-front or deferred) of variable remuneration.

The Bank did not pay additional remuneration to the Members of the Management Board for performance of work outside the usual functions, except for those provided by their employment agreements and functional responsibilities.

Report on remuneration for the Members of the Management Board of “PRAVEX BANK” JSC

No actual dismissals of the Management Board Members and no payments upon dismissal were reported during 2020 period.

Within the reporting period, no remunerations in non-monetary form paid to the Members of the Management Board.

The HR and Organization Department is the structural unit that is in charge of the implementation and application of the requirements of the Remuneration and Incentive Policies.

“PRAVEX BANK” JSC does not provide the Members of the Management Board of “PRAVEX BANK” JSC with additional benefit programs, in particular, pension programs.

Within the reporting period, no deviations from the approved conditions of remuneration for the Members of the Management Board and no violations of the conditions set for in the Remuneration and Incentive Policies of “PRAVEX BANK” JSC were found out.

Within the 2020, the Bank did not grant to the Members of the Management Board any credits, loans and guarantees.

Information on existing credits, loans and guarantees granted by “PRAVEX BANK” JSC to the members of the Management Board:
Semion Babayev, Deputy Chairman of the Management Board - amount of mortgage

In 2020, the following Members of the Management Board attended the meetings of the Management Board and its Committees:
In 2020, 30 meetings of the Management Board were held:
Gianluca Corrias –Chairman of the Management Board – attended 27/30
Semion Babayev –Deputy Chairman of the Management Board – attended 29/30
Marko Koželj – Member of the Management Board – attended 28/30
Dario Caprioli – Member of the Management Board – attended 28/30
Francesco Lupo – Member of the Management Board – attended 28/30
Svitlana Basha – Member of the Management Board – attended 25/30 (25/25 from her appointment)
Olena Pokhodziaieva – Member of the Management Board – attended 22/30 (22/22 from her appointment).

In 2020, 4 meetings of the Information Security Management Committee (ISMC) were held
Gianluca Corrias –Chairman of the ISMC – attended 3/4
Semion Babayev – Member of the ISMC – attended 4/4
Marko Koželj – Member of the ISMC – attended 3/4
Dario Caprioli – Member of the ISMC – attended 4/4
Francesco Lupo – Member of the ISMC ittee – attended 4/4
Svitlana Basha – Member of the ISMC mmittee – attended 4/4
Olena Pokhodziaieva – Member of the ISMC – attended 4/4.

In 2020, 2 meetings of the Internal Controls Coordination Committee were held:
Svitlana Basha – Member of the ICCC – attended 2/2
Olena Pokhodziaieva – Member of the ICCC – attended 2/2.

In 2020, 13 meetings of the Change Management Committee were held:
Gianluca Corrias –Chairman of the CMC – attended 13/13
Semion Babayev –member of the CMC – attended10/13
Marko Koželj – Member of the CMC– attended 13/13
Dario Caprioli – Member of the CMC – attended 13/13
Francesco Lupo – Member of the CMC – attended 11/13
Svitlana Basha – Member of the CMC – attended 11/11.

PRAVEX BANK

Report on remuneration for the Members of the Management Board of “PRAVEX BANK” JSC

In 2020, 70 meetings of the Credit Committee were held:
Gianluca Corrias –Chairman of the CC – attended 61/70
Semion Babayev –member of the CC – attended 65/70
Marko Koželj – Member of the CC – attended 66/70
Francesco Lupo – Member of the CC – attended 66/70.

In 2020, 18 meetings of the Tender Committee were held:
Gianluca Corrias –Chairman of the TC – attended 13/18
Dario Caprioli – Member of the TC – attended 18/18
Svitlana Basha – Member of the TC – attended 18/18.

In 2020, 30 meetings of the Assets and Liabilities Management Committee were held:
Gianluca Corrias –Chairman of the ALMC – attended 28/30
Semion Babayev –member of the ALMC – attended 28/30
Marko Koželj – Member of the ALMC – attended 28/30
Francesco Lupo – Member of the ALMC – attended 27/30
Svitlana Basha – Member of the ALMC – 26/26, since March 4, 2020
Dario Caprioli – Member of the ALMC – 4/4 (his Mandate as Member of this Committee terminated on March 4, 2020).

In 2020, 14 meetings of the Credit Risk Governance Committee were held:
Gianluca Corrias –Chairman of the CRGC – attended 11/14
Semion Babayev –Member of the CRGC – attended 13/14
Marko Koželj – Member of the of the CRGC – attended 13/14
Francesco Lupo – Member of the CRGC – attended 11/14.

In 2020, 25 meetings of the Non-Performing Assets Committee were held:
Gianluca Corrias –Chairman of the NPAC – attended 22/25
Marko Koželj – Member of the NPAC – attended 24/25.

In 2020, 4 meetings of the Operational Risk Committee were held:
Gianluca Corrias –Chairman of the ORC – attended 3/4
Dario Caprioli – Member of the ORC – attended 3/4
Svitlana Basha – Member of the ORC – attended 4/4
Olena Pokhodziaieva – Member of the ORCd – attended 3/4 (3/3 from her appointment).

PRAVEX BANK

The reasons for the absence of the Members of the Management Board at its meetings or at the ones of its Committees were illness or/and leave during holding of the meetings.

Within the reporting period, there were no facts of unacceptable behavior of the Members of the Management Board of the Bank (including any reported in a confidential manner) and no measures taken by the result of an investigation in case of impact of such facts / measures on payment of remuneration to the Members of the Management Board.

Approved by the Supervisory Board of “PRAVEX BANK” JSC
Approved by the Annual General Meeting of Shareholders of “PRAVEX BANK” JSC

REPORT
on remuneration for the Members of the Supervisory Board of "PRAVEX BANK" JSC for 2020

Report on remuneration for the Members of the Supervisory Board of “PRAVEX BANK” JSC

- According to the requirements of the applicable Legislation in force and of the Articles of Association of “PRAVEX BANK” Joint-Stock Company, the Supervisory Board of “PRAVEX BANK” JSC (“Bank”) is composed by seven Members, three of which meet the criteria to be considered “independent Members”.

- According to the decision of the sole shareholder of “PRAVEX BANK” JSC – Intesa Sanpaolo S.p.A., a remuneration is paid only to four Members of Supervisory Board: to the three independent Members and to the Chairman of the Supervisory Board.

- In 2020, the remuneration to the entitled Members of the Supervisory Board of “PRAVEX BANK” JSC was paid according to the Decisions of the Sole Shareholder of the Bank dd. On April 26, 2018, dd. And on October 22, 2020 and based on civil law agreements concluded with those Members for their participation in such body as well as in the other Committees of Supervisory Board for the reference year and it was paid on pro-rata basis in line with the effectiveness of their mandate.

- The overall yearly (fixed) remuneration paid to the Members of the Supervisory Board of “PRAVEX BANK” JSC within the year 2020 amounted to EUR 51 826,37 = UAH 1 754 058,38 after taxation.

- According to the decisions of the Shareholder and to terms and conditions of civil law agreements, the remuneration was paid on the «15th» of December of 2020, on pro-rata basis in line with the effectiveness of their mandate, according to the procedure set forth by a civil law agreement.

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

- In case of early termination of duties of a Member of Supervisory Board who receives remuneration, for any reason, the Bank makes payment of such remuneration in the amount, proportional to the terms of the mandate, within one month from the date of termination of duties.

- The remuneration accrued by the Supervisory Board Members was paid in cashless form by means of its crediting their accounts in the national currency of Ukraine according to the official exchange rate of the NBU as of the day of payment.

Report on remuneration for the Members of the Supervisory Board of "PRAVEX BANK" JSC

- In 2020, the criteria for definition of remuneration for the Members of the Supervisory Board did not change with respect to the previous year. The remuneration of the Members of the Supervisory Board did not depend on the yearly results of the Bank, being a pre-determined fixed amount.
- The remuneration system for the Members of the Supervisory Board is a part of the Remuneration and Incentive Policies of "PRAVEX BANK" JSC approved on 26.06.2020 (Minutes No.7_20.10), that is developed and implemented on the basis of the Group Remuneration and Incentive Policies of the sole Shareholder of the Bank.
- The HR and Organization Department is the structural unit that is in charge of the implementation and application of the requirements of this Policy.
- "PRAVEX BANK" JSC does not have information on remunerations received by each Member of Supervisory Board of the Bank from legal entities, related by relations of control or affiliated.
- "PRAVEX BANK" JSC does not provide to the Members of the Supervisory Board of "PRAVEX BANK" JSC additional benefit programs, in particular, pension programs.
- Within the reporting period, no deviations from the approved conditions of remuneration for the Members of the Supervisory Board and no violations of the conditions set for in the Remuneration and Incentive Policies of "PRAVEX BANK" JSC were found out.
- Within the reporting period, the Bank did not grant to the Members of the Supervisory Board any credits, loans and guarantees.

2020, 17 meetings of the Supervisory Board were held:
by means of personal presence or video-conference: 10
by means of electronic vote: 7

Ezio Salvai, Chairman of the Supervisory Board,
attended 16 out of 17 meetings of the Supervisory Board

Corrado Casalino, Deputy Chairman of the Supervisory Board, independent Member,
attended 17 out of 17 meetings of the Supervisory Board
attended 3 out of 3 meetings of the Audit Committee
attended 4 out of 4 meetings of the Risk Management Committee

Fabrizio Mallen, independent Member,
attended 17 out of 17 meetings of the Supervisory Board
attended 4 out of 4 meetings of the Risk Management Committee

Laura Febbraro, was elected as independent Member of the Supervisory Board by Decision of the Shareholder dd. 22.10.2020 and started to exercise her duties dd. 22.10.2020 based on a written decision of the National Bank of Ukraine dd. 23.07.2020,
attended 5 out of 17 meetings of the Supervisory Board
attended 1 out of 3 meetings of the Audit Committee

Andrea Fazzolari, a representative of the Shareholder,
attended 15 out of 17 meetings of the Supervisory Board

Emanuele Collini, a representative of the Shareholder,
attended 17 out of 17 meetings of the Supervisory Board
attended 4 out of 4 meetings of the Risk Management Committee

Lorenzo Fossi, a representative of the Shareholder,
attended 17 out of 17 meetings of the Supervisory Board
attended 3 out of 3 meetings of the Audit Committee

Report on remuneration for the Members of the Supervisory Board of “PRAVEX BANK” JSC

Sergio Nicola , independent Member of the Shareholder,
attended 10 out of 17 meetings of the Supervisory Board
attended 2 out of 3 meetings of the Audit Committee.

Mr. Nicola’s powers were terminated on 17.10.2020 based on a written notification provided to the Bank on 02.10.2020.

- The reasons for the absence of the Members of the Supervisory Board at its meetings or at the ones of its Committees were due to illness or/and leave during holding of the meetings.
- Within the reporting period there were no facts of unacceptable behavior of the Members of Supervisory Board of the Bank (including any reported in a confidential manner) and no measures taken by the result of an investigation in case of impact of such facts /measures on payment of remuneration to the Members of Supervisory Board.

Approved by the Supervisory Board of “PRAVEX BANK” JSC
Approved by the Annual General Shareholders Meeting of “PRAVEX BANK” JSC

PRAVEX BANK