ANNUAL REPORT

JSC “UKRAINIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT”

for the year that ended December 31, 2021

Translation from the Ukrainian Original

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders and the Board of Directors
of Joint Stock Company "Ukrainian Bank for Reconstruction and Development"
National Bank of Ukraine
National Securities and Stock Market Commission

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Joint Stock Company "Ukrainian Bank for Reconstruction and Development" (hereinafter – the Bank), which comprise the statement of financial position as at December 31, 2021, statement of profit or loss and other comprehensive income, statement of changes in equity (statement of equity) and statement of cash flows for the year then ended and notes to the financial statements, including the summary of significant accounting policies (hereinafter – the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2021, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (hereinafter – IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with ethical requirements that are applicable in Ukraine to our audit of the financial statements, such as the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – IESBA Code), and we also have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Significant Uncertainty regarding Going Concern

We draw attention to notes 4 and 31 to the financial statements, which state that as a result of military aggression of the Russian Federation against Ukraine military action can have a significant impact on the economic situation in the country, and its consequences cannot be assessed with a sufficient level of predictability. As noted in note 4 to the financial statements, taking into account the possible impact of these events, the Bank's management concluded that there is significant uncertainty, which can put under significant doubt the ability of the Bank to continue as a going concern. The result of these events is not under the direct control of the Bank, the Bank's management monitors the way current situation is developing and takes measures as appropriate to minimize any adverse consequences as far as possible. Our opinion is not modified in respect of this matter.

Other Information

Management of the Bank is responsible for other information, which is not the financial statements of the Bank and do not contain our Independent Auditor's Report thereon.

Other information comprises:

- *Management Report (Governance Report) for 2021* (hereinafter – the Governance report), which was prepared by the Bank based on the requirements of Chapter IV of the Resolution of the Board of the National Bank of Ukraine «Regulation on the Procedure of Preparation and Disclosure of Financial Statements of Banks #373 dated 24.11.2011 (hereinafter – Resolution #373), and which we received before the date of our Independent Auditor's Report. Our opinion on the financial statements does not apply to the abovementioned Governance Report and we do not conclude with any level of assurance on it as a whole. In connection with our audit of the financial statements, our responsibility is to read the Governance report and review on:
  - its consistency with the financial statements of the Bank for 2021;
  - compliance of the Governance Report with legislation requirements;
  - the existence of material misstatements in the Governance Report.

  We have not identified inconsistency of the Governance Report with the Financial Statements of the Bank for 2021; we also did not identify incompliance of the Governance Report with the legislation requirements regarding its preparation and presentation procedures. We did not find material misstatements in the Governance Report.

- *Annual Information of the Issuer,* which must be completed by the Bank based on the requirements of articles 126 and 127 of the Law of Ukraine "On Capital Markets and Organized Commodity Markets" taking into account the requirements of article 12^2 of the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" and which is not the financial statements of the Bank. Annual Information of the Issuer will be approved after the date of our Independent Auditor's Report. Our opinion on the financial statements does not apply to the Annual Information of the Issuer and we do not conclude with any level of assurance on this Annual Information of the Issuer as at the date of this Independent Auditor's Report. In connection with our audit of the financial statements, our responsibility is to read the Annual Information of the Issuer and consider whether there is a material inconsistence between the Annual Information of the Issuer and the financial statements or our knowledge obtained during the audit, or whether the Annual Information of the Issuer otherwise appears to be materially misstated. When we read the Annual Information of the Issuer and if we come to the conclusion that it contains the material misstatement, we will be obliged to inform those charged with governance about this fact.

Responsibilities of the Bank's Management and the Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matter related to going concern and using the going concern assumption as a basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the Bank;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that the 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 the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- ***The Law of Ukraine "On audit of the financial statements and auditing" N2258-VIII dated December 21, 2017***

The information in this section of the Independent Auditor's Report is provided in accordance with paragraphs 3 and 4 Article 14 of the Law of Ukraine "On Audit of the Financial Statements and Auditing" No. 2258-VIII dated December 21, 2017.

We were appointed to conduct the statutory audit of the Bank's financial statements by the Supervisory Board resolution #10/2021 of July 20, 2021; the total duration of the audit engagement without interruptions, taking into account extension of the mandate that took place and the re-appointments, is three financial years that ended December 31, 2021.

Audit Estimates

Our statement regarding identification and our assessment of risks of material misstatement of financial statements due to fraud or error is contained in *Auditor's Responsibilities for the Audit of the Financial Statements* section of this Independent Auditor's Report.

Description and assessment of risks of material misstatement in the financial statements

In planning our audit, we determined that the audit of the Bank's financial statements is accompanied by a high audit risk, which comprises the Bank's business risk and inherent accounting risk. Information regarding the risk assessment of material misstatement due to fraud is disclosed below in *Main reservations regarding the risks of material misstatement in the financial statements* section of this Independent Auditor's Report.

Business risk is based on the facts that the Bank belongs to public interest entities and also is sensitive to decrease in profitability of domestic government bonds and deposit certificates issued by the NBU, which are the main sources of the Bank's income.

In planning our audit we identified accounting risk as possible in connection with assessment of expected credit losses from financial assets.

References to information in the financial statements for describing and assessing the risk of material misstatement in the financial statements

Business risk is described in Notes 1, 2, 4 and 31 to the financial statements of the Bank. Accounting risk is described in Note 4 to the financial statements.

Description of responses taken to address identified risks of material misstatement in the financial statements

Based on identified and assessed risks of material misstatement of the financial statements, we conducted the following audit procedures, we:

- increased the level of professional scepticism (i.e., increased our attention to documentation and the need to confirm the explanations or statements of the Bank's management);

- assigned personnel appropriate in the circumstances to carry out the statutory audit, including, in accordance with the RSM International Audit Manual, a second partner and a quality control reviewer;
- increased sample size and scope of analytical procedures;
- investigated whether there were any significant and / or unusual operations that took place close to the year end and at the beginning of the next year;
- assessed the appropriateness of the applied accounting policies and the reasonableness of the accounting estimates and relevant disclosures in the financial statements made by the Bank's management;
- assessed the overall presentation, structure and content of the financial statements, including disclosures, as well as whether the underlying operations and events are presented the financial statements in the way to achieve their reliable presentation;
- analysed conclusion on the acceptability to use the assumption of the Bank's management regarding going concern as the basis for accounting based on the audit evidence obtained. The period of assessment of going concern covered a period of at least twelve months from the date of approval of the financial statements;
- analysed information on whether there is a significant uncertainty about events or conditions that would put into question the Bank's ability to continue as going concern.

Main reservations regarding the risks of material misstatement in the financial statements

The main reservation is the risk of fraud. In accordance with the requirements of IAS 240, in planning of our audit, we considered the Bank's disposition to fraud, taking into account the business environment, as well as the means and methods of control established and supported by management, as well as the character of the transactions, assets and liabilities presented in the accounting.

In planning our audit, we made inquiries to the Bank's management regarding whether they have knowledge of any actual, suspected or alleged fraud affecting the Bank. In response to such inquiries the management provided a written assessment of the risk of fraud in the Bank, according to which the risk of fraud is controlled.

However, the primary responsibility for prevention and detection of fraud rests with the management of the Bank, which shall not rely on the audit to avoid its responsibilities, as fraud may include conspiracy, forgery, deliberate omission, incorrect statements or override of internal control, which may not be detected as a result of the limitations inherent of an audit. The limitations inherent of an audit are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this Independent Auditor's Report.

Audit Effectiveness in Detecting Violations

In the case of any misstatements identified as a result of our audit, other than purely trivial mistakes, we report them to the Supervisory Board and the management of the Bank and apply professional judgment for quantitative and qualitative assessment of their cumulative effect on items and disclosures in the Bank's financial statements; and also consider qualification of our Independent Auditor's Report. As a result of our audit, we have not identified any unadjusted misstatements, which would require qualification of our Independent Auditor's Report.

Consistency of Independent Auditor's Report with Additional Report to Audit Committee

This Independent Auditor's Report is brought in line with the Additional Report to the Audit Committee of the Supervisory Board of the Bank, which was prepared in accordance with the requirements of Article 35 of the Law of Ukraine "On Audit of the Financial Statements and Auditing".

Providing Services Prohibited by Law and Independence of the Key Audit Partner and Audit Firm from the Bank

We have not provided services prohibited by law to the Bank, as it was stipulated by Article 6 of the Law of Ukraine "On Audit of the Financial Statements and Auditing".

Statement of our independence from the Bank, including the key audit partner is disclosed in the *Basis for Opinion* and *Auditor's Responsibilities for the Audit of the Financial Statements* paragraphs of this Independent Auditor's Report.

Information about Other Services Provided to the Bank or its Controlled Entities, except for Statutory Audit Services

Except for statutory audit of the Bank's financial statements service, we provided other services including:

- review of the interim financial statements of the Bank for quarter three 2021;

From the date of our appointment as the auditor of the Bank's financial statements for 2021 until the date of this Independent Auditor's Report, we have not provided other services to the Bank.

During the period under audit there were no legal entities controlled by the Bank (subsidiaries) to which we would have provided services.

Clarifications on the Scope of the Audit and the Limitations Inherent of an Audit

The limitations inherent of an audit are described in *Auditor's Responsibilities for the Audit of the Financial Statements* paragraph of this Independent Auditor's Report.

Because of the limitations inherent of an audit as well as limitations inherent of the internal control system, there is an unavoidable risk that some significant misstatements may not be detected even if the audit is properly planned and performed in accordance with the ISAs.

Basic Information about the Audit Firm

- *Full name according to constituent documents* - LIMITED LIABILITY COMPANY "RSM UKRAINE"
- *Place of the entity's registration and actual location* – 47, Nizhnyoyurkivska Str., 04080, Kyiv and 37/19, Donetska Str., 03151, Kyiv, respectively;
- *Information on including in the Register* – under #0084 (s/n5) in the Register of Auditors and Audit Entities, including in Section *Audit entities eligible to carry out statutory audit of the financial statements* and in Section *Audit entities eligible to conduct statutory audit of the financial statements of public interest companies*.

The key audit partner of the audit resulting in this Independent Auditor's Report is Oleksandr Dudar.

- ***the Decision of National Security and Stock Market Commission (hereinafter - NSSMC) "Requirements to Information that relates to Audit or Review of the Financial Statements of the Capital Market and***

Organized Commodity Markets' Participants, which are supervised by the National Securities and Stock Market Commission" №555 dated July 22, 2021

Audit of the financial statements of Joint Stock Company "Ukrainian Bank for Reconstruction and Development" was conducted on the basis of agreement №29-09/2021 B 700 dated September 29, 2021 and was performed from September 29, 2021 until April 6, 2022 inclusive.

General requirements according to point 1 of section II of the Decision #555

In our opinion, the *disclosure of information about the ultimate beneficial owner and ownership structure* at the reporting date was made by the Bank in accordance with the requirements of the Regulations on the form and content of ownership structure approved by the Ministry of Finance of Ukraine #163 dated March 19, 2021, registered with the Ministry of Justice of Ukraine on June 8, 2021 by #768/36390 (note 1 to the financial statements).

The Bank is not a controller/member *of the non-banking financial group* (note 1 to the financial statements).

The Bank is a *public interest entity* (note 1 to the financial statements).

The parent company. As at the end of the reporting period the shares of the Bank belong to the Limited Liability Company "BOSE (HONG KONG) KO., LIMITED" (4, Oleksiya Teriokhina Street, Kyiv, 04080, Ukraine),, which owns 100% of the Bank's share capital.

Prudential indicators established by the legal and regulatory act of NSSMC. Prudential indicators for banks of Ukraine are established by the National Bank of Ukraine.

Requirements to information according to point 4 of Section II of the Decision #555 concerning issuers

Compliance of the share capital amount to the constituent documents. The Bank's share capital as of 31.12.2021 is compliant with the constituent documents and amounts to UAH 244,000 thousand (note 17 to the financial statements).

Placed securities, issue of which is registered with appropriate registration of issue certificate are paid in in full.

Subsequent events are disclosed in note 31 to the financial statements. Events that have not been presented in the financial statements but may have a material impact on the financial position of the Bank as at 31 December 2021, are not identified.

Completeness and reliability of information disclosure regarding financial investments composition and structure. We have not identified any facts of inconsistency of information regarding financial investments composition and structure to IFRS requirements (note 8 to the Bank's financial statements).

Information on the existence of other facts and circumstances that may significantly affect the Bank's future activities. Not identified.

In connection with the Corporate Governance Report preparing by the Bank in accordance with the law requirements, we inform the following:

- *according to the audit data, the information specified in paragraphs 1-4 of the third part of Article 127 of the Law of Ukraine "On Capital Markets and Organized Commodity Markets" № 3480-IV dated February 3, 2006* is provided in the Corporate Governance Report
- *in our opinion, the information specified in paragraphs 5 - 9 of the third part of Article 127 of the Law of Ukraine "On Capital Markets and Organized Commodity Markets",* namely: description of the main characteristics of internal control and risk management systems of the Bank; a list of persons who directly or indirectly own a significant block of shares in the Bank; information on any restrictions on the rights of participation and voting of shareholders at the general meeting of the Bank; the procedure for appointing and dismissing officials and the powers of the Bank's officials set out in the Corporate Governance Report does not contradict the information we obtained during the audit of the Bank's financial statements.

The Bank has not formed the *Audit Commission*.

Oleksandr Dudar
Key Audit Partner

Registration number 100867
in the Register of Auditors and Audit Entities

April 6, 2022

37/19 Donetska Str., Kyiv, Ukraine
Identification code: 21500646
https://www.rsm.global/ukraine

FINANCIAL STATEMENT (BALANCE)
as of December 31, 2021
(in UAH thousand)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	6	16,501	19,167
Loans and debts of clients	7	1,506	
Investments in securities	8	664,560	353,646
Investment property	9	0	24,674
Accounts receivable on current income tax		248	248
Property, plant and equipment and intangible assets	10	46,119	51,375
Other assets	11	1,033	1,166
Total assets		**729,967**	**450 276**
LIABILITIES			
Banks' money	12	445,173	90,000
Clients' money	13	41,473	96,761
Provision for liabilities	14	20	0
Other liabilities	15	2,966	2,836
Subordinated debt	16	9,480	88,097
Total liabilities		**499,112**	**277,694**
EQUITY			
Share capital	17	244,000	244,000
Unregistered share capital	17	73,480	0
Uncovered damages		(93,900)	(81,368)
Result from operations with shareholders		2,677	5,352
Other additional capital		(261)	(261)
Provision and other reserves of the bank		4,859	4,859
Total equity		**230,855**	**172,582**
Total liabilities and equity		**729,967**	**450,276**

Approved for issue and signed

«Український банк реконструкції та розвитку»

Oleh LOKTIONOV
Chairman of the Executive Board

Tetiana SYLENKO
Acting Chief Accountant

April 6, 2022

The notes on pages 5-52 are an integral part of the financial statements of the Bank for 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
for 2021
(in UAH thousand)

	Notes	2021	2020
Interest income	19	44,856	28,861
Interest expenses	19	(31,300)	(10,297)
Net interest income		**13,556**	**18,564**
Commission income	20	257	204
Commission expenses	20	(219)	(108)
Net profit on foreign currency operations		703	79
Net profit/(loss) on foreign currency revaluation		(263)	424
Expenses/(income) arising on initial recognition of financial liabilities at the interest rate above or below the market rate		632	
Net profit/(loss) on impairment of financial assets	6, 7	(50)	1 427
Other operating income	21	5,418	827
Expenses for employee remuneration	22	(34,880)	(33,522)
Depreciation and amortisation expenses	22	(5,845)	(3,826)
Administrative and other operating expenses	22	(7,243)	(5,143)
(Loss)/profit before tax		**(27,934)**	**(21,074)**
Income tax expenses	23	-	-
(Loss)/profit for the year		**(27,934)**	**(21,074)**
OTHER COMPREHENSIVE INCOME		-	-
Total comprehensive loss for the year		**(27,934)**	**(21,074)**
Loss per one ordinary share, UAH	24	(57,24)	(43,18)

Approved for issue and signed

«Українськи банк реконструкції та розвитку»

Oleh LOKTIONOV
Chairman of the Executive Board

Tetiana SYLENKO
Acting Chief Accountant

April 6, 2022

The notes on pages 5-52 are an integral part of the financial statements of the Bank for 2021

STATEMENT OF CHANGES IN EQUITY (EQUITY STATEMENT)
for 2021
(in UAH thousand)

	Share capital (Note 17)	Emission differences and other additional capital (Note 17)	Unregistered share capital (Note 17)	Provisions and other reserves (Note 17)	Result from operations with shareholders	Undistributed profit/outstanding loss	Total
As of Dec 31, 2019	**244,000**	**(261)**	-	**4,859**	**5,352**	**(60,294)**	**193,656**
Total comprehensive income	-	-	-	-	-	(21,074)	**(21,074)**
As of Dec 31, 2020	**244,000**	**(261)**	-	**4,859**	**5,352**	**(81,368)**	**172,582**
Total comprehensive income	-	-	-	-	-	(27,934)	**(27,934)**
Changes in equity from transactions with shareholders	-	-	-	-	(2,675)	15,402	**12,727**
Transactions with shareholders	-	-	**73,480**	-	-	-	**73,480**
As of Dec 31, 2021	**244,000**	**(261)**	**73,480**	**4,859**	**2,677**	**(93,900)**	**230,855**

Approved for issue and signed

Oleh LOKTIONOV
Chairman of the Executive Board

Tetiana SYLENKO
Acting Chief Accountant

April 6, 2022

The notes on pages 5-52 are an integral part of the financial statements of the Bank for 2021

STATEMENT OF CASH FLOWS (by direct method) for 2021

(in UAH thousand)

	Notes	2021	2020
CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES			
Interest income received		39,762	27,010
Interest expenses paid		(18,978)	(5,823)
Commission income received	20	257	204
Commission expenses paid	20	(219)	(108)
Result from foreign currency operations		703	79
Other received operating income		92	827
Other received income from disposal of previously written-off financial assets		0	790
Staff expenses paid		(34,990)	(32,183)
Other administrative and other expenses paid		(6,970)	(5,783)
Income tax paid		-	-
Net cash flow from operating activities before changes in operating assets and liabilities		**(20,343)**	**(14,987)**
Net (increase)/decrease of operating assets			
Other assets		137	475
Net increase/(decrease) of operating liabilities			
Banks' money	11	357,000	90,000
Clients' money		(55,214)	87,522
Other liabilities		240	67
Net cash received/(used) from operating activities		**281,820**	**163,077**
CASH AND EQUIVALENTS RECEIVED FROM INVESTMENT ACTIVITIES			
Redemption of securities		3,950,339	3,086,639
Acquisition of securities		(4,257,552)	(3,280,589)
Disposal of securities		-	14,137
Investment in subsidiaries		-	(2,545)
Disposal of investment in subsidiaries		-	2,580
Acquisition of property, plant and equipment		(412)	(11,089)
Income from sale of investment property	9	30,000	-
Acquisition of intangible assets		(42)	(3,951)
Net cash and cash equivalents received from investment activities		**(277,667)**	**(194,817)**
CASH AND CASH EQUIVALENTS RECEIVED FROM FINANCIAL ACTIVITIES			
Other shareholder contributions other than share issuance	**17**	73,480	0
(Obtaining)/repayment of subordinated debt	**16**	(79,480)	47,480
Net cash and cash equivalents received from financial activities		**(6,000)**	**47,480**
Impact of changes in the official exchange rate on cash and cash		(775)	(201)
Net increase/(decrease) in cash and cash equivalents		-2,622	15,539
Cash and cash equivalents at the beginning of the period	6	**19,435**	**3,896**
Cash and cash equivalents at the end of the period	6	**16,813**	**19,435**

Approved for issue and signed

Oleh LOKTIONOV
Chairman of the Executive Board
April 6, 2022

Tetiana SYLENKO
Acting Chief Accountant

The notes on pages 5-52 are an integral part of the financial statements of the Bank for 2021

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NOTE 1. Information about the bank

Joint Stock Company "Ukrainian Bank for Reconstruction and Development" (hereinafter - "the Bank") was founded in Ukraine on December 17, 2003 as Closed Joint Stock Company "Ukrainian Bank for Reconstruction and Development" and was registered with the National Bank of Ukraine on 19 March 2004. On 1 October 2007 the Bank was transformed into Open Joint Stock Company "Ukrainian Bank for Reconstruction and Development". As a result of the amendments to the Law of Ukraine "On Joint Stock Companies" as of 28 August 2009 the name was changed to Public Joint Stock Company "Ukrainian bank for reconstruction and development". On 1 November 2018, due to amendments to the Law of Ukraine "On Joint Stock Companies", the Bank changed the type of a joint stock company to a private joint stock company and changed the name to the Joint Stock Company "Ukrainian Bank for Reconstruction and Development".

Location: 4, Oleksiia Teryokhina Street, Kyiv, 04080, Ukraine.

Main activities. The Bank carries out its activities within the limits of the banking license No. 216 issued by the National Bank of Ukraine on 15.03.2011 and has a right to provide banking services, stipulated by Article 47(3) of the Law of Ukraine "On Banks and Banking Activities".

In cases stipulated by the current legislation of Ukraine, the Bank shall be entitled to provide financial services as defined by the Law of Ukraine "On Financial Services and State Regulation of Financial Services Market," including:

- trading in currency valuables;
- attraction of financial assets with an obligation on their further repayment
- financial leasing;
- granting loans, including financial loans;
- providing guarantees;
- transfer of funds;
- professional activities in the securities market, which are regulated by normative legal acts of the National Securities and Stock Market Commission and may be carried out by the Bank only after obtaining the respective license, namely:
    securities trading activities:
    - dealer activity,
    - securities trading: dealer activity, broker activity
    - securities management activities,
    - underwriting;

    depository activities:
    - depository activities of a depository institution,
    - custody activities of collective investment institutions,
    - custody activities of pension fund assets;
    - factoring.

In addition to providing financial services, the Bank shall also be entitled to carry out activities on:

- investments;
- issuance of its own securities;
- issue, distribution and holding lotteries;
- safekeeping of valuables (including accounting and storage of securities and other valuables confiscated (seized) in favor of the state and/or recognized as ownerless) or providing an individual bank safe for rent (lease)
- encashment of cash and transportation of currency valuables;
- keeping the registers of registered securities holders (except for own shares)
- provision of consulting and information services on banking and other financial services.

The Bank is a member of the Deposit Guarantee Fund. Certificate No. 169 of November 19, 2012.

During the reporting period, the Bank did not carry out lending to individuals, as well as other active banking operations, except for investments in government debt securities and certificates of deposit of the National Bank. During the reporting period the Bank attracted resources from the National Bank, legal entities and natural persons.

In the reporting period, the Bank carried out its activity in the territory of one region (regionally).

The Bank is an enterprise of public interest.

The Bank is not a member/controller of a non-banking financial group.

As of December 31, 2021 and December 31, 2020, the sole shareholder of the Bank, who owns 100% of the Bank's authorized capital, was BOSE (HONGKONG) CO., LIMITED Limited Liability Company (Ukraine, 04080, Kyiv, 4, Terokhina Oleksiia Street).

In accordance with the Law of Ukraine "On state registration of legal entities, individual entrepreneurs and public organizations" and the Regulation on the form and content of the ownership structure approved by the order of the Ministry of Finance of Ukraine dated March 19, 2021 No. 163 information about the ultimate beneficial owner and the ownership structure was entered into the Unified State Register of legal entities, individual entrepreneurs and public organizations. The beneficial owner was determined based on the requirements of the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds of Crime, Financing of Terrorism and Financing Weapons of Mass Destruction Proliferation" – Yan Dunshen, a citizen of China (indirect decisive influence – 100%).

Information on the ownership structure is published on the Bank's website (https://ubrr.com.ua) and the official website of the National Bank of Ukraine (https://bank.gov.ua). As of December 31, 2021, the owners of the Bank's significant participation as agreed by the National Bank of Ukraine are the citizens of the PRC Yan Dongsheng and Dai Junyun together, who received joint indirect participation in the amount of 100% through:

- BOCE (Hong Kong) Co., Limited LIMITED LIABILITY COMPANY, in which 84.51% interest is held by BOCE (Hong Kong) Co., Limited and 15.49% interest by Yan Dongsheng;
- BOCE (Hong Kong) Co., Limited (Hong Kong), 100% of the share capital of which is owned by Baoshi (Tianjin) Electronics Commerce Co;
- Baoshi (Tianjin) Electronics Commerce Co., Ltd., 99% of the share capital of which belongs to Tianjin Bohai Commodity Exchange Limited Liability Company (Tianjin Bohai Commodity Exchange Co., Ltd.);
- Tianjin Bohai Commodity Exchange Limited Liability Company, Ltd. with 15.5113% interest held by Yan Dongsheng; 31.5802% interest held by Bo Xu Equity Investment Limited Partnership (Khorgos) (Limited Partnership);
- Bo Xu Equity Investment Enterprise (Khorgos) (Limited Partnership), 90% interest in which is owned by Yan Dongsheng and 10% by Dai Junyun.

There is no management interest in the shares of the Bank.

The Bank has no subsidiaries.

Prudential indicators. For banks of Ukraine, prudential indicators are established by the National Bank of Ukraine based on the requirements of Instruction on procedure of regulation of banks' activity in Ukraine No. 368 dated on August 28, 2001.

These financial statements were approved for issue by the Board of the Bank on April 6, 2022.

NOTE 2. Economic environment in which the Bank carries out its activities

By the end of the year under review, the number of operating banks in the banking market of Ukraine was 71 institutions, two less than at the beginning of the year. Of these, 33 banks with foreign capital (including 23 banks with 100% foreign capital).

The year under review, like last year, was fraught with uncertainty. However, while in 2020 the main uncertainty was how the coronavirus and related quarantine restrictions would affect the economy, in 2021 the uncertainty was primarily related to inflation.

By the end of the year, consumer price growth had slowed from a peak of 11% in September to 10% in December. The decline in inflation was helped by, among other things:

- record harvests and a correction in individual global food prices;
- effects of the hryvnia's appreciation in previous months;
- exhaustion of low comparison base and strengthening of monetary policy of NBU;
- administrative decisions to fix tariffs for some housing and utility services.

At the same time, an early slowdown in inflation was hampered by the carryover of further increases in global energy prices and pressure from other production costs of business on the cost of goods and services. The impact of sustained consumer demand also persisted, which, in particular, caused core inflation to rise to 7.9% by year-end. The National Bank of Ukraine worsened its inflation forecast for 2022 from 5 to 7.7%, given the realization of these pro-inflationary factors.

In October – December 2021, the demand for business loans increased record high, most of all for short-term, hryvnia-denominated loans and SME loans. The determining factors were the need of enterprises mainly for working capital and, to some extent, for capital investment. For SMEs, low interest rates remained an additional demand growth factor.

Households' demand for credit increased throughout the year under review. Improved consumer sentiment and increased spending on durable goods led to a rebound in demand for consumer credit. Mortgage lending was fueled by lower interest rates. At the same time, the debt burden of households remains below average.

In the fourth quarter of 2021, according to banks, the volume of attracted funds increased, and their value increased slightly due to the appreciation of borrowings from corporations. The share of liabilities in foreign currency has decreased, the total maturity of deposits has not changed. The volume of capital has increased over the last 12 months, the banks maintained their intentions to increase the volume of capital in the future.

According to operational data, the profit of the banking system in 2021 amounted to 77.5 billion UAH. This is a record profit in recent years, and it is these funds can be used to build up capital and increase lending.

As of January 1, 2022, Ukraine's international reserves, according to preliminary data, amounted to USD 30,940.9 million. In 2021 they increased by USD 1.8 bln, or 6%. International reserves increased due to the receipt by Ukraine of external financing and purchases by the National Bank of Ukraine on the foreign exchange market.

IMF financing significantly supported the Ukrainian economy in 2020-2021. Cooperation with the Fund will be no less important in the future - especially in the current tense geopolitical situation and increased competition of emerging market countries for foreign capital amid the strengthening of monetary policy in the world.

In December, the National Bank of Ukraine raised its discount rate by 0.5 p.p. to 9.0%. The decision was driven by the need to mitigate additional inflation risks and improve inflation expectations. The decision was driven by the need to mitigate additional pro-inflation risks and improve inflation expectations, which will lead to a gradual decline in inflation to the target (5%). Index of interbank overnight rates UONIA also increased, but remained near the lower boundary in the corridor of rates of the National Bank of Ukraine due to the preservation of significant liquidity in the banking system. The yield of hryvnia-denominated OVDPs at initial placement also rose, reflecting the government's funding needs at the end of the year. This allowed the Ministry of Finance to attract a significant amount of funds, including at the expense of demand from non-residents.

The year 2022 began for Ukraine's financial market with new challenges. The escalating situation on Ukraine's borders significantly worsened the expectations of market participants, which affected the decline in the value of Ukrainian assets (both in the domestic market and abroad) and the formation of devaluation pressure on the hryvnia. A prolonged persistence of geopolitical tension could have an extremely negative impact on the expectations of the population, businesses and investors, as well as become a significant obstacle to investment in the economy and complicate the attraction of external financing.

The National Bank's baseline scenario forecasts a further reduction in the impact of the pandemic on the Ukrainian economy. However, the emergence of new variants of the coronavirus against the background of the still insufficient level of vaccination creates the risk of additional economic losses in 2022. New outbreaks of the pandemic are unlikely to hit consumer demand hard, but will discourage business activity. This could lead to increased inflationary pressures. There are other risks of a pro-inflationary nature:

- a significant deterioration in terms of trade or a sharp decline in harvests after last year's records;
- the revival of labor migration against the background of the gradual fading of the pandemic, increasing disproportions in the domestic labor market and the growth of business spending on wages;
- the need to bring tariffs for housing and utilities services to economically justified levels.

According to the baseline scenario, the discount rate will be at a level no lower than neutral during this and subsequent years.

In addition, to strengthen the interest rate channel of monetary transmission by managing the structural liquidity surplus in the banking system, the National Bank of Ukraine in February 2022 will increase the required reserves ratio on current accounts in UAH, as well as on funds in foreign currency by 2 basis points.

Also in March, the implementation of other measures to regulate the structural liquidity surplus of the banking system will be considered.

The main sources of the Bank's financing in the reporting year were:

- refinancing loans received from the National Bank;
- funds attracted from customers;
- funds raised on the terms of subordinated debt;
- own funds.

The Bank had no resources that were not recognized in the statement of financial position in accordance with IFRS.

NOTE 3. Basics of presentation of the financial statements

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS"), approved by International Accounting Standards Board ("IASB") and interpretations, issued by the International Financial Reporting Interpretation Committee ("IFRIC").

The financial statements are presented in thousands of Ukrainian hryvnias ("UAH thousand"), unless otherwise specified.

NOTE 4. Principles of accounting policy

4.1. Evaluation bases for preparation of the financial statements

This report employs different evaluation bases with different levels and in different combinations. They include:

- *initial value* - the assets are presented by the sum of cash or cash equivalents paid or by fair value of consideration made to acquire them at the time of acquisition. Liabilities are presented at the amount of proceeds received in exchange for the liability or, in some cases (*e.g.* income tax), by the amount of cash or cash equivalents expected to be paid to cover the liability in the ordinary course of business;

- *fair value* - the price which would be formed under the following conditions:

- the price is the initial price, *i.e.* price received for sale or paid for transfer;
- the price is received in the ordinary course of business;
- the price was received on the principal or most favourable market,
- the participants of the principal or the most favourable market – buyers and sellers are independent and knowledgeable;
- the price is received under current market conditions as of the date of the fair value measurement;
- the price is received regardless of whether it is observed directly or is resulted from the valuation methods;
- the price is the market value, but not the value given specifics of the Bank.

- *amortised cost* - the value at which the financial asset, financial liability is measured at initial recognition less of amount of the principal repayment increased (reduced) by the amount of accumulated amortisation of any difference between the initial and repayment values (adjusted, in case of financial assets subject to provision for losses), measured using the effective interest method.
- *book value of financial instruments* - the value at which the asset or liability is presented in the balance sheet. The book value for a financial asset and a financial liability consists of the principal amount of debt, accrued interest, unamortised premium (discount), revaluation amount, and for a financial liability - the amount of valuation allowance for expected credit losses*;*
- *book value for non-financial assets* - the value at which an asset is recognised after deducting any accumulated amortisation and accumulated impairment losses or amount of valuation allowance, subject to revaluation where appropriate.

4.2. Financial instruments

Initial recognition

Financial instruments under fair value, changes in which attribute to financial results, are initially recognised under the fair value. All other financial instruments are initially recognised at fair value plus transaction costs. At initial recognition profit or loss is recognised only when there is any difference between the fair value and the transaction price.

The best evidence of fair value of a financial instrument at the initial recognition is the transaction price. The Bank reaches the conclusion that the fair value at the initial recognition is different from the transaction price:

- if the fair value is confirmed by active market quotes for an identical assets or liability (*i.e*. Level 1 input) or is based on a measurement method that uses data from exclusively observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price in the form of income or loss;
- in other cases, the initial measurement of a financial asset is adjusted to defer for future periods the difference between the fair value and the transaction price. At initial recognition the Bank recognises the deferred difference as income or loss only when input data becomes observable, or the instrument is derecognised.

Date of recognition

Acquisition or sale of financial assets or liabilities on standard terms are presented on the date of the transaction, *i.e.* the date when the Bank accepts the obligation to acquire an asset or liability. Acquisition or sale on standard terms include acquisition or sale of financial assets and liabilities under an agreement, which provides for supply of assets or liabilities within the time limit set by the rules or agreements on the market.

Classification

Financial assets. Depending on intentions and asset management policy, the Bank classifies financial assets as financial assets valued at amortised cost, where the purpose of holding such asset (*i.e.* business model) is obtaining cash flows under the contract.

At the initial recognition, the Bank classifies financial assets based on the business model applied to manage these assets and characteristics of the cash flow under the contract.

Business model measurement. The Bank defines the business model at the level which best reflects how the grouped financial assets are managed to achieve a particular business purpose. The business model of the Bank is measured not on the level of separate instruments, but on a higher level of aggregated portfolio and is based on observable factors such as:

- the way business model performance and financial assets profitability held under the business model are measured and how such information is communicated to the key management of the Bank;
- risks affecting efficiency of the business model (and profitability of financial assets held within such business model) and, in particular, the way these risks are managed;
- expected frequency, volume and timing of sales are also important aspects in measuring the business model of the Bank.

The business model measurement is based on scenarios which are reasonably expected without considering "worst" or "stress" scenarios. If after the initial recognition, the cash flows are realised by the means other than expected by the Bank, the Bank does not change the classification of available financial assets held under this business model, but subsequently takes such information into account when assessing newly created or recently acquired financial assets.

The "solely payments of principal and interest" test (SPPI test). Within the second stage of the classification process the Bank assesses the contractual provisions of the financial asset to identify whether contractual cash flows for the asset are solely payments to the principal and interest (the so-called "SPPI" test).

For the purpose of this test the "principal" is the fair value of a financial asset at the initial recognition, which can change over the life of the financial asset (*e.g.* if there is a repayment of the principal or amortisation of a premium/discount). The most significant elements of a loan agreement are usually the reimbursement for the temporary money value and credit risk reimbursement. To conduct the SPPI-test, the Bank applies judgements and measures relevant factors such as currency denomination of the financial asset and the interest rate period. At the same time, there are contractual terms that have more than a marginal effect on the risk exposure or volatility of contractual cash flows associated with the underlying loan agreement that do not give rise to contractually provided cash flows which are solely payments of principal and interest. In such cases, the financial asset should be measured at FVTPL.

As of the date of the report all financial assets of the Bank are measured at amortised net cost.

Impairment of financial assets

The bank applies two approaches to reserving:

1. <u>Group.</u> Under the group approach, valuation at the portfolio level is applied. It is used for financial instruments having one of the attributes:
    - are not considered to be significant - less than UAH 10,000,000;
    - no significant increase in credit risk is detected;
    - which fall under the inquiry method. The Demand Method is used for all financial instruments for which it is impossible to identify clear schedules of debt repayment, with the central banks of the countries that have an investment rating according to the international scale, confirmed by Standard and Poor's agency (company) or analogous rating of other leading world rating agencies (companies),

for securities, The rating is issued by the central authorities, the National Bank of Ukraine, international financial institutions as well as other banks for the first period of up to 3 months.

2. Individual. On a case-by-case basis, client-level valuation is applied. It is used for financial instruments having one of the following characteristics:
   - are deemed material - equal to or more than UAH 10,000,000, except for those falling under the simplified method;
   - significant increase of credit risk or sign of default is revealed.

Financial instruments with value up to UAH 250 thousand are considered on group basis for all stages of provisioning.

The Bank evaluates loans to customers at amortized cost, calculates the amount of expected credit loss, which is recognized as a valuation allowance and depends on the degree of deterioration of credit quality after initial recognition.

As the Bank cannot rely on its own accumulated statistics when determining the probability of default on financial instruments assessed on a collective basis, the PD ratio is determined on the basis of external credit ratings, regulator recommendations, external statistical data (if they can be reasonably applied to the relevant asset group), etc. As the Bank accumulates its own statistical data, it will proceed to determining the probability of default on their basis.

On operations with resident banks, legal entities, securities (in foreign currency), refinanced by the National Bank of Ukraine, the probability of default is set based on the NBU Resolution No. 351 "On Determination of Credit Risk by Banks of Ukraine for Active Banking Operations" щт 30.06.2016, as amended and supplemented.

The credit quality of financial instruments issued by the National Bank of Ukraine is limited by the sovereign rating of Ukraine but, at the same time, the index of default losses for the previous periods makes zero. Therefore, provisions for expected credit losses on these financial instruments are not formed.

The following main observable data, depending on the type of borrower, is evidence of significant increase of the credit risk of a financial instrument:

- banks - lowering the class of the borrower by 2 classes or by 1, starting with the 3d class; lowering the external rating under the national scale below BBB-(S&P) or Baa3 (Moody's) or BBB- (Fitch); existence of a fact of non-compliance with economic standards and/or the mandatory provision requirement set by the regulator;
- government securities – lowering the external rating on a national scale below CCC-(S&P) or Ca (Moody's) or CCC- (Fitch);
- loans to clients (small and medium-sized businesses) – lowering the borrower's class by 2 classes or by 1 starting from class 6; overdue payments from 30 to 90 days; liquidity problems; blocking of current accounts; average overdraft load of more than 95% of the set limit for the last 90 days;
- accounts receivable – overdue payments for a period from 30 to 90 days;

The following factors are recognised as signs of default:

- banks – breach of payments obligations under the loan agreement (payment of interest/commissions/principal amount) or failure to execute payment orders of the Bank on balances in correspondent accounts within one business day; lowering the external rating to D or C; in case of one of the mentioned factors: the bank is under interim administration, the bank is in liquidation state, the bank has a licence revoked.

- government securities – lowering external rating on a national scale to a D or C rating;

- loans to customers (small and medium enterprises) – overdue payments over 90 days; internal rating category D.

- accounts receivable – overdue payments over 90 days; counterparty class on accounts receivable 2.

The Bank applies a simplified approach to assess the impairment and provision for trade receivables and receivables which are financial assets (hereinafter - financial receivables) with a maturity of three months or less according to the terms of the contract. This approach includes a simplified approach to calculating credit risk for the above receivables using a matrix of provisions recognized as liabilities and according to which the Bank does not monitor changes in credit risk.

Derecognition

Financial assets. A financial asset (or when a part of a financial asset or a part of a group of similar financial assets is applied) is derecognised when:

– the assets have been redeemed or the rights to receive cash flows from the assets have otherwise expired or
– the Bank transferred the rights to receive cash flows from financial assets or entered into a transfer agreement while also transferring substantially all risks and rewards of the ownership, or the Bank did not transfer or retain substantially all the risks and rewards of ownership but stopped control. The control is considered to be maintained if the counterparty does not have a practical opportunity to fully sell the assets to an unrelated party without reselling restriction;
– the asset was written-off through provisions or waiving the debt.

Financial liabilities. A financial liability is derecognised when it is fulfilled, cancelled or expired. In case an existing financial liability is replaced by another from the same creditor on substantially different terms or the terms of the existing liability is substantially adjusted, such replacement or adjustment is considered as derecognition of the initial liability and recognition of a new liability and the difference in the respective carrying amount is recognised in the Statement of profit and loss.

Features of individual classes of financial instruments and classes of assets, on which provision for expected credit losses are calculated

Cash and cash equivalents. The cash of the Bank is cash in hand, funds in the correspondent account with the National Bank of Ukraine, funds in banking institutions with a maturity of up to 90 days from the date of origin, which are not encumbered by any contractual obligations. Cash and cash equivalents are carried at amortised cost. In accordance with the chosen accounting policy, the Bank does not classify financial instruments as cash equivalents.

The Bank's investments in securities are investments in debt securities, the purpose of which is to hold cash flows in accordance with the terms of the issue. Debt securities held by the Bank for the purpose of obtaining cash flows in accordance with the terms of the issue are recognized at initial recognition at fair value and are subsequently measured at amortised cost.
During the reporting year 2021 and the previous reporting period, the bank invested exclusively in domestic bonds denominated in the national currency and certificates of deposit of the National Bank of Ukraine..

The Bank recognises interest income on debt securities by applying the effective interest rate.

Loans to clients – a type of the Bank's active operations related to the provision of funds to customers for temporary use or the assumption of obligations to provide funds for temporary use under certain conditions, as well as the provision of guarantees, instructions, letters of credit, acceptances, avals; placing deposits; conducting factoring operations and money leasing operations; granting loans in the form of bills of exchange, in the form of reverse REPO operations, any extension of the term of debt repayment granted in exchange for the debtor's obligations to repay the debt amount, as well as obligations to pay interest and other charges on such amount (deferred payment); installment of payment for the assets sold by the Bank. The Bank evaluates loans to customers at amortized cost, calculates the amount of expected credit losses, which is recognized as a valuation allowance and depends on the degree of deterioration of credit quality after initial recognition.

Financial liabilities

Clients' money. Clients' money include non-derivative financial liabilities to corporate clients and individuals. The Bank measures the clients' money at initial recognition at fair value and subsequently at amortised cost. The Bank records interest rates on financial instruments that cannot determine the amount of future cash flows and the timing of their occurrence by using the nominal interest rate.

Subordinated debt is long-term borrowed funds, which according to the agreement are returned to the investor after the claims of all other creditors are repaid and are included in the capital subject to the permission of the National Bank of Ukraine. The amount of subordinated debt included in the capital is annually reduced by 20% of its original amount during the last five years of the agreement.

Subordinated debt is initially measured at fair value. At initial recognition, the Bank recognises profit or loss on the difference between the fair value of the financial liability and the contract value in correspondence with the discount/premium accounts if the effective interest rate under this instrument is higher or lower than the market rate. After the initial recognition, funds received under the subordinated debt are carried at amortised cost.

Costs on subordinated debt are accrued by the Bank on a monthly basis using the effective interest rate. Interest is paid in accordance with the terms of the Agreement and considering the specifics on interest payment stipulated in the Agreement provided that certain parameters of the Bank's activity are available. Accrued but unpaid interest is not capitalised but is considered by the Bank in determining the carrying amount of the subordinated debt.

Financial liabilities are measured at amortized cost.

4.3. Investment in associated companies and subsidiaries

The investment in associated companies and subsidiaries include investments to the share capital of the companies meeting the requirements for definition of the associated company or a subsidiary of the Bank excluding securities acquires and/or maintained solely for the purpose of sale within 12 months from the acquisition date. Investment in associated companies and subsidiaries are recognised at the date of obtaining the significant influence.
The investment made into associated companies and subsidiaries are initially measured and reflected in the accounting at initial value. Transaction cost related to the investment increase the value of such investment at the date of the investment.

Investments in associated companies and subsidiaries are carried out at the date following the initial recognition at net cost including depreciation.

Dividend received from an associated company or a subsidiary is recognised in profit or loss when the right to such dividend is established.

After the initial recognition the Bank revises the investments in the associated companies and subsidiaries with respect to depreciation.

4.4. Investment property

Investment property is real estate held by the Bank for profit from rent or for the purpose of saving capital, and not for the purpose of use in operating or administrative activities and which the Bank does not occupy.

Investment property is initially recognised at value, which includes the purchase price of the property and any costs directly attributable to the acquisition, and which is not subsequently revalued. Upon recognition as an asset, investment property is carried at net cost less of accumulated depreciation and accumulated depreciation losses.

The liquidation value of investment property is zero, the original value is depreciated over its useful life, which is 75 years for buildings. The land is not depreciated.

As of December 31, 2021, the Bank has no investment properties.

4.5. Plant, property and equipment

Acquired (created) plant, property and equipment / low-value tangible fixed assets and intangible assets are credited to the balance at the initial cost, which includes all costs associated with the acquisition (creation), delivery, installation and commissioning. Subsequently, property, plant and equipment are carried at net cost less accumulated depreciation and any accumulated impairment loss.

Some of the Bank's fixed assets are fully martyred, but the Bank continues to use them.

During the reporting year, the useful lives of property, plant and equipment were revised but did not change.

The Bank analyzes the availability of signs of decreased utility of fixed and intangible assets annually as of December 1 of the current year as part of the annual inventory of assets and liabilities.

The Bank recognises depreciation if there is evidence of a potential loss of economic benefits. The usefulness of plant, property and equipment is impaired if their carrying amount exceeds the estimated amount of expected compensation. The Bank annually analyses the presence of signs of depreciation of plant, property and equipment and intangible assets. According to the results of the inventory of plant, property and equipment as of December 01, 2021, there are no grounds for recognising depreciation.

4.6. Intangible assets

Acquired intangible assets are carried at initial cost, which consists of actual acquisition (manufacturing) costs and bringing intangible assets to a state at which they are suitable for use in accordance with the intended purpose. Subsequently, intangible assets are carried at net cost less of accumulated amortisation and any accumulated impairment losses.

The Bank analyses the signs of impairment of intangible assets annually as of December 01 of the current year as part of the annual inventory of assets and liabilities. The Bank recognises impairment if there is evidence of potential loss of economic benefits. Intangible assets are impaired if their carrying amount exceeds the estimated amount of the expected compensation. During 2020-2021, impairment of intangible assets was not recognised.

4.7. Depreciation

All non-current (tangible and intangible) assets (except for the cost of land and unfinished capital investments) shall be subject to depreciation on a systematic basis over their useful life established by the bank at their initial recognition.

Depreciation shall not be accrued if the book value of noncurrent assets equals to their liquidation value.

Depreciation deductions shall be determined in the profit and loss statement.

Depreciation of fixed assets (except for other non-current tangible assets) shall be accrued by the bank using the straight-line method according to which the annual amount of depreciation is determined by dividing the depreciable value by the term of useful life of an item of fixed assets.

The range of useful lives (operation) of fixed assets is from 3 to 75 years, including:

- buildings – 75 years;
- machinery and equipment – 5-7 years;
- tools, instruments and implements – 4 years;
- information systems and other machines for automatic information processing – 5 years;
- other fixed assets – 12 years.

Useful lives of fixed assets were revised during the reporting year, but were not changed.

Depreciation of low-value tangible fixed assets and library funds is accrued in the first month of the object's use in the amount of 100 percent of its value.,

Depreciation of intangible assets is accrued using the straight-line method, which means that the economic benefit from intangible assets is used in full throughout their service life.

The useful lives of intangible assets were revised but not changed in the reporting year 2021.

If the depreciation method is changed or a new useful life is established, these changes are applied as of the month following the month in which they occurred.

Depreciation is accrued on a monthly basis. The monthly amount of depreciation is determined by dividing the amount of depreciation for a full year of useful life by 12.

4.8. Operating lease (rent) by which the Bank acts as a lessor

The Bank does not obtain assets in lease, but provides some of the premises in lease, classifying these operations as operating leases

An operating lease is an economic transaction which involves the transfer to the lessee of the right to use the tangible assets (including fixed assets) owned by the lessor, with the obligatory return of such tangible assets to the lessor after the expiration of the lease (rent) agreement. Lease (rent) is classified as operating if the Bank does not transfer all the risks and rewards of fixed assets ownership.

Throughout the lease term, fixed assets leased out (rented) are amortised on a general basis by the Bank as the lessor and may be reviewed for impairment on a general basis. The lease payments are recognised by the Bank in other operating income. Proceeds under operating leases agreements are recognised on a straight-line basis throughout the term of the lease.

4.9. Operative leasing (rent) by which the Bank acts as a lessee

In 2021, the Bank entered into a long-term lease for part of the premises for the operation of the Bank's resumption site.

The Bank recognized the right-of-use asset on the date at which the underlying asset became available for use. The right-of-use asset is measured by the Bank at cost less accumulated depreciation and accumulated losses due to reduced utility, adjusted for the revaluation of the lease liability. The initial measurement of the right-of-use asset consists of the sum of the initial measurement of the lease liability, initial direct costs, lease payments made at or on the lease commencement date less the lease incentives received and costs to be incurred to restore the underlying asset to the condition required by the lease. Since the Bank is not reasonably certain that it will obtain ownership of the leased asset at the end of the lease term, the right-of-use asset recognized is depreciated on a straight-line basis until the end of the lease term. The right-of-use asset is reviewed for impairment.

At the commencement date, the Bank recognizes a lease liability at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives to be received; variable lease payments that depend on an index or rate; and amounts expected to be payable by residual value guarantees. Lease payments also include the exercise price of an acquisition option if it is reasonably certain that the Bank will exercise the option and the payment of termination penalties if the lease term reflects the potential (option) to terminate the lease. Variable payments that do not depend on an index or rate are recognized as an expense in the period in which the related event or condition triggering such payments occurs. To calculate the present value of lease payments, the Bank applies the lessee's incremental borrowing rate as of the lease commencement date, if the allowable interest rate in the lease cannot be readily determined. After the lease commencement date, the amount of the lease liability is increased to reflect interest charges and decreased to reflect lease payments made. Also, if there is a modification, a change in the lease term, a change in the substance of the fixed lease payments, or a change in the option (option) to purchase the underlying asset, the carrying amount of the lease liability is remeasured.

4.10. Income tax

Current tax is the amount that is expected to be paid or refunded by tax authorities for taxable profit or loss for the current and prior periods. Taxable profit or loss is based on estimates if the financial statements are approved by the time the relevant tax declarations are filed. Taxes other than the income tax, are included in administrative expenses.

Deferred income tax is calculated using the balance sheet liability method for deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The deferred income tax is determined based on the tax rate effective for the period when the deferred tax asset or liability is disposed.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

4.11. Share capital and share premium

Share capital is paid by the participants' cash contributions to the value of the Bank's shares in the amount determined by the articles of association. Share capital is shown at the original (nominal) value. Costs directly related to the issue of new shares are carried in equity as a reduction in the amount of proceeds and are reflected in other additional capital in the financial statement. Excess of fair value (placement price) of cash paid for the shares over the nominal value is carried in equity as share premium.

4.12. Earnings per share

Basic earnings per share are calculated by dividing net profit or loss for the year by the weighted average number of ordinary shares which has been outstanding during the year. The bank has no convertible preferred stock or convertible bonds, so diluted earnings per share will be equal to basic earnings per share. The Bank did not conduct any transactions with shares or potential shares that could affect the amount of earnings per share as of the reporting date.

4.13. Income and expenses

Income is recognised if there is a high likelihood that the Bank will receive economic benefits and the income can be measured reliably.

Interest income and expenses are operational income and expenses received (paid) by the Bank for the use of cash, cash equivalents or amounts owed (attracted) by the Bank and the amounts of which are calculated in proportion to the time and amount of the asset or liability. Interest income and expenses for all financial instruments are reflected using the effective interest rate method. The effective interest rate is not applied by the Bank:

- for recognition of income/expenses on financial liabilities on demand, the term of which is limited to reporting period of one month;
- for recognition of income/expense on financial liabilities on demand;
- for recognition of income/expense on funds placed on current, on-demand correspondent accounts.

Recognition of income and expenses of the Bank is carried out on the following principles:

- income and expenses are carried in the periods to which they relate;
- adjustments to expenses or income of previous accounting periods are carried in the same expense or income accounts;
- future income and expenses as well as expenses that are attributable to future periods are carried for future income and expense and amortised accordingly over the periods specified in the contracts;
- income and expenses are recognised using the accrual method.

Other banking services income as well as commission income and expenses are recognised using the accrual method.
The commission for the services provided/received depending on the purpose of their measurement and accounting of the related financial instrument are divided into:

- commissions that are an integral part of the income (expense) of a financial instrument. These commissions are recognised at the initial cost of the financial instrument. The Bank recognises such commissions using the effective interest rate.
- commissions received/paid during the provision of services are recognised as income/expenses either at the time of accrual or at the time of receipt/payment.
- commissions received/paid after performing certain actions are recognised as income/expenses after the completion of a specific transaction or event.

Earnings and expenses attributable to future periods are carried as future income/expense. The Bank recognises the amount of income and expenses attributable to the reporting period on a monthly basis.

4.14. Foreign currency revaluation

Monetary assets and liabilities denominated in foreign currencies were translated into UAH at the official exchange rates at the reporting date. Foreign currency transactions were accounted for using the official exchange rates at the dates of the respective transactions. Profit and losses arising from the revaluation of a foreign currency are included in the item "Net profit/(loss) from foreign currency revaluation" of the Statement of income and loss and other comprehensive income (Statement of financial results). Income and expense items attributable to future periods arising in foreign currency on non-monetary items are also non-monetary and were carried at the official exchange rate at the date of payment settlement, *i.e.* actual receipt/payment, and were not revalued at each change in official exchange rates until they are recognised at respective income/expense accounts.

In preparing these financial statements, the Bank has used the following foreign exchange rates:

Currency	December 31, 2021	December 31, 2020
1 USD	27.2782	28.2746
1 EUR	30.9226	34.7396
1 RMB	4.2798	4.3333

4.15. Employee benefits

The Bank pays its employees salaries and its equivalents. Salary costs, contributions to the State Pension and Social Insurance Funds, paid annual leave and sick leave, bonuses, and other salary-equivalent benefits are accrued in the period in which respective services are provided by the Bank's employees.

The Bank has no legal or expected obligation to make retirement or similar benefits.

The Bank makes certain deductions to the State pension system of Ukraine, which requires an employer to make current contributions, calculated as a percentage of the total salary. These costs relate to the period in which the salaries are accrued.

4.16. Information on operating segments

The operating segmentation principle provides for segmentation of information on a part of activities of the Bank which is capable of bringing economic benefits and provides for respective expenses. Operating segmentation is carried out based on management reporting.

An operating segment is a segregated business component of the Bank which participates in activities (which can bring profit and bear expenses), which operating results are systematically reviewed by the Management for taking decisions on internal allocation of resources and assessment of such results. A segment has intrinsic risks and profitability, which differ from other segments of operations.

The Bank's primary format for providing segment information is segments by business area..

Information on an operating segment is presented separately in the reporting, if such information meets any of the quantitative criteria:

- the income of this segment from the sale of products, services to external buyers and for internal economic payment settlements makes 10% or more of the total income (including banking activities within the segment);
- the financial result of the segment is not less than 10% of the total financial result of all segments of a certain type (that is, not less than 10% of the greater of two absolute values - the total amount of profit or the total amount of loss of all segments);
- the carrying amount of the segment assets makes 10% or more of the total book value of all segments of a certain type.

The reporting segments are formed by the Bank based on the selected areas of operations (services to banks, services for corporate clients and individuals, banking activities with securities) and by combining several similar segments of the same type into a separate reporting segment. Segments are recognised as similar if they have similar profit values over several reporting periods and are consistent with most of the criteria for determining an operating segment.

Income from a reporting segment is the income directly attributable to the segment and the corresponding portion of the Bank's income which can be attributed to the segment from external activity.

The expenses of a reporting segment are expenses related to the core activities of the segment that are directly attributable to it and the corresponding portion of the expenses that can be reasonably attributed to the segment, including the costs of external activities. Segment costs do not include the income tax expenses.

Assets of the reporting segment are assets that are used to perform ordinary course of business and are directly related to the segment. Segment assets do not include income tax assets. Segment assets are recognised after deducting the respective provisions that regulate the valuation of an item in the Bank's balance sheet.

A segment liability is a liability that arises from the normal activities of the segment and is directly related to the segment or can be attributed to the segment by proportional distribution. If the segment results include interest expense, the segment liabilities include related liabilities for which interest is charged. Segment liabilities do not include the income tax liability.

The main criterion by which the Bank determines the reporting operating segments is the homogeneity of risks, profitability, target groups and the technological process inherent in the segment.

JSC "Ukrainian Bank for Reconstruction and Development" operates in the following operating segments:

- ***Services for banks***: opening of correspondent accounts in other banks, placement (raising) of funds, sale and purchase of non-cash foreign currency at the Ukrainian interbank foreign exchange market, the sale and purchase of cash in national currency, etc.

- ***Services for clients (legal entities and individuals)***: cash transactions on current accounts of legal entities and individuals, taking deposits, providing overdraft, loans and other lending services, conducting operations with non-cash foreign currency on behalf of clients, etc.

- ***Securities transactions:*** purchase and sale of treasury securities (domestic government bonds and deposit certificates), depositary services, services on own securities, etc.

Also, the allocation of indirect costs was conducted by the method in which expenses were distributed to the reporting segments in proportions equal to contributions of each reporting segment to the total result of all reporting segments after allocation of direct income and expenses.

During the 2021 reporting year, segregation, consolidation of segments or accounting policy changes were not carried out.

Cross-segment operations are carried out on a free-of-charge basis.

The Bank does not have clients, income from which exceeds 10% of the total amount of external income.

Detailed information on operating segments is presented in Note 25.

4.17. Related party transactions

In the course of its ordinary activities, the Bank carries out operations with various counterparties. Parties are considered to be related if one party has the ability to control the other party or has a significant influence on the other party when making managerial decisions.

As of December 31, 2021 and December 31, 2020, the sole shareholder of the bank, which owns 100% of the share capital of the Bank, has been the LLC "BOSE (HONG KONG) CO., LIMITED" (Ukraine).

Detailed information on transactions with related parties is provided in Note 30.

The Bank's key management includes, in particular, the Chairman and members of the Supervisory Board, the Chairman and members of the Executive Board of the Bank.

4.18. Significant accounting judgments and estimates, their impact on the recognition of assets and liabilities

In the process of preparing the financial statements, the management of the Bank use their professional judgments, estimates and assumptions that affect the application of accounting policy principles, the amounts of assets and liabilities, income and expenses reflected in the financial statements, and having an impact on disclosure potential assets and liabilities.

Judgments and estimates are regularly reviewed and are based on the experience of the management and other external and internal factors, including future events that are reasonably expected under the circumstances. The results of the review are reflected in the period in which the review takes place and are valid until the next review of estimates, assumptions and judgments. Actual results may differ from the estimates, assumptions and judgments used.

Judgments

Continuity of activity. Having analysed the existing internal, economic and political factors of uncertainty, and considering their possible impact, the management of the Bank concluded that the assumption of continued activity in the preparation of these financial statements is appropriate, which involves the disposal of assets and the settlement of liabilities in the ordinary course of business. The management of the Bank monitors the current situation and, where necessary, takes steps to minimise any adverse effects as far as possible. The Bank has sufficient liquidity to meet all its financial obligations.

Initial recognition of related party transactions. In the ordinary course of business, the Bank conducts transactions with related parties. IFRSs and the requirements of Ukrainian law require accounting such transactions at initial recognition at fair value.

Uncertainty of estimates

Tax legislation and recognition of deferred taxes. The tax, currency and customs legislation of Ukraine provides for different interpretations, which causes considerable differences in the estimation of amounts of taxes and other payments to the budget. Deferred tax assets are recognised by the Bank only to the extent that it is probable that future taxable profits will be available based on the Bank's medium-term development plan. Such plans are based on sound management assumptions under the current circumstances. As of December 31, 2021, the Bank had no potential tax liabilities.

Carrying amount of non-current assets. At the end of each reporting period, the Bank's management reviews the carrying amounts of fixed and intangible assets for possible impairment if certain events or changes in circumstances indicate that the carrying amounts may be impaired. Impairment of property, equipment and intangible assets is determined by assessing the recoverable amount of the assets.

Impact of COVID-19 spread on activities of the Bank

Given that during the reporting period the Bank did not have a loan portfolio and placed temporary free funds in low-risk assets such domestic government bonds and deposit certificated of the National Bank of Ukraine, the COVID-19 spread did not affect much the financial instruments and depreciation of assets of the Bank. The Bank was not exposed to credit risk related to potential deterioration of financial position and solvency of borrowers and/or decrease in liquidity of pledged assets. In case of granting loans in the following reporting year, the Bank will use prudent towards adequate research of potential borrower and assets to be pledged and will be guided by the principle of reasonable care and prudence. All financial instruments are measured by the Bank at amortised net cost and do not bear substantial risks of significant correction of carrying value and liabilities in the next reporting year.

From the beginning of COVID-19 spread and its recognition by the World Health Organisation as a pandemic, the Bank took all necessary measures to ensure continuous work in the new quarantine environment. Due to COVID-19 spread and quarantines introduced in the country, the Bank has rebuilt its work to minimise the risk of infection of its personnel and preventing them from continuing operating activities. In particular, the following measures were taken:

- regular cleaning of the Bank's premises with the use of disinfectants and disinfection of workplaces;
- introduction of temperature screening of employees / clients for early detection of patients and provision of hand disinfectants;
- providing all employees of the Bank with the necessary personal protective equipment (masks, disinfectants);
- restrictions on the number of employees to stay in the offices at the same time;
- transfer of the Bank's employees, who are not involved in the support of critical and customer services, to the remote mode of operation while maintaining the continuity of all operational processes. For this purpose, all necessary technical equipment (including laptops for employees) and software were purchased to support the full functioning of the Bank remotely;
- use of all possible modern communication means (telephone, email, Viber, WeChat, Zoom etc) to remotely solve all working issues with employees, clients and shareholders.

In turn, the spread of COVID-19 and the quarantine imposed in the country had, among other things, an impact on the overall decline in business activity of business entities. This had a significant impact on the Bank's activities in the reporting year and affected the Bank's implementation of the "Ukrainian Bank for Reconstruction and Development JSC Development Strategy for 2020 – 2023", which determined the Bank's priorities and tasks from the beginning of growth and progressive development, using the latest financial instruments and mechanisms that the Chinese-Ukrainian partnership can provide to achieve these goals.

In 2021 the Bank has developed and approved the new "Strategy of JSC "Ukrainian Bank for Reconstruction and Development" by the Decision of the Supervisory Board No. 16/2021 dated on 15.11.2021. Road Map of the Bank for 2022-2024".

4.19. Changes in accounting policies and changes in the presenting information

In preparing the 2021 Annual financial statements, the accounting principles are consistent with the principles used in the preparation of the annual financial statements for the year ended December 31, 2020, except for the new and revised standards and interpretations that have to be applied by the Bank commencing January 01, 2021.

According to the Law of Ukraine "On accounting and financial reporting in Ukraine", banks as entities of public concern shall prepare and submit financial reporting based on the taxonomy according to the international standard in the single electronic form in 2021 for the first time.

NOTE 5. New and revised standards that have not entered into force

Amended IFRS and interpretations entered into force and adopted to apply commencing January 01, 2021 and did not have significant impact on the financial results of the Bank:

- *Amendments to IFRS 9, IAS 39 and IFRS 7 "Basic Interest Rate Reform, Phase 2"*. These amendments complete the Base Rate Reform and contain changes relating to modifications to financial instruments, lease liabilities, specific hedge accounting requirements and disclosure requirements for modifications and hedge accounting;
- *Amendments to IFRS 16 "Leases"* relate to the disclosure and accounting of lease assignments related to COVID-19.

Major changes taking effect as of January 01, 2022:

- *IFRS 3 Business Combinations* specifies how an entity should account for the assets and liabilities that it buys as a result of a business combination and introduced an exception that, for certain types of liabilities and contingent liabilities, entities that apply IFRS 3 have, instead of the Conceptual Framework, referred to IAS 37 Collateral, Contingent Liabilities and Contingent Assets;

- *The amendments to IAS 16 "Property, Plant and Equipment"* prohibit deducting from cost of fixed assets the amounts received from sale of manufactured goods, while the company prepares the asset for its intended use and requires recognition of such proceeds from sales and related expenses in profit or loss. . Also additions to IFRS 16 concern the accounting and disclosure of information in relation to the receipt of fixed assets for their intended use;

- *The amendments to IAS 37 "Collateral, Contingent Liabilities and Contingent Assets"* clarify what costs should be included in estimating the cost of fulfilling a contract in order to assess whether it is onerous;

- *Annual Improvements to IFRS, 2018 – 2020 cycle:*
  - *IFRS 1 "First-time Adoption of IFRS",*
  - *IFRS 9 "Financial Instruments":* in determining the amount of fees paid less fees received, the borrower accounts only for the amount of fees paid or received between that borrower and the relevant lender, including fees paid or received by the borrower or lender;
  - *IAS 41 "Agriculture".*

  The amendments are not expected to have any material impact on the Bank's financial statements.

New IFRSs that have been issued but will not yet enter into force as of January 01, 2022:

- *IAS 17 "Insurance Contracts"* is effective for annual periods beginning on or after January 01, 2023, with comparative information required. Application to that date is permitted provided the entity also applies IFRS 9 and IFRS 15 at the date of initial application. Management does not expect the adoption to have a material impact on the Bank's financial performance or position.

- *Amendments to IAS 1 "Presentation of Financial Statements".* The classification of liabilities into current and non-current is intended to provide a more general approach to classifying liabilities based on contractual terms in effect at the reporting date. They are effective for annual periods beginning on or after 01 January 2023.

- *Amendments to IAS 1 "Presentation of Financial Statements"* to Practice Statement No. 2 of IFRS Criticality Judgements;

- *Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"* clarify the difference between changes in accounting policies and accounting estimates and define accounting estimates as monetary amounts in financial statements for which there is uncertainty in estimates.

According to management's preliminary estimates, the aforementioned amendments will not have a material impact on the Bank's financial position and financial statements.

NOTE 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Cash	6,059	7,657
Funds in the National Bank of Ukraine	703	145
Correspondent accounts in Ukrainian banks	10,051	11,633
Total cash and cash equivalents for preparing the Statement of cash flow	**16,813**	**19,435**
Provision for depreciation of cash on correspondent accounts in Ukrainian banks	(312)	(268)
Carrying (amortised) value	**16,501**	**19,167**

Table 6.2. Analysis of changes in provision for cash and cash equivalents on correspondent accounts in Ukrainian banks

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Provision for impairment at the beginning of the period	**(268)**	**(112)**
Change in provision	(44)	(156)
Provision for impairment at the end of the period	**(312)**	**(268)**

Table 6.3. Analysis of credit quality of cash and cash equivalents

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
High rating	15,612	18,017
Standard rating	1,201	1,418
Carrying (amortised) value	**16,813**	**19,435**

NOTE 7. Loans and debts of clients

Table 7.1. Loans and debts of clients carried at amortized cost

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Loans granted to legal entities, accounted at amortized cost	1,512	0
Provision for loan impairment	(6)	(0)
Total loans minus reserves	**1,506**	**0**

The amount of accrued unreceived interest income is 12 thousand UAH, including loans provided to legal entities, that is12 thousand UAH.

Table 7.2. Analysis of credit quality of loans and customer debt carried at amortized cost for 2021

in UAH thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Obtained or created impaired assets**	**Total**
Loans and receivables from customers carried at amortized cost					
Minimum credit risk	1,512	-	-	-	1,512
Low credit risk	-	-	-	-	-
Medium credit risk	-	-	-	-	-
High credit risk	-	-	-	-	-
Defaulted assets	-	-	-	-	-
Total gross carrying amount of loans and receivables from customers carried at amortized cost	1,512	-	-	-	1,512
Allowance for impairment losses on loans and receivables carried at amortized cost	(6)	-	-	-	(6)
Total loans and customer receivables carried at amortized cost	**1,506**	**-**	**-**	**-**	**1,506**

7.3 Analysis of changes in allowances for impairment of loans and customer receivables carried at amortized cost during the reporting period

in UAH thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Obtained or created impaired asset**	**Total**
Allowance for depreciation as of the beginning of the period	**-**	**-**	**-**	**-**	**-**
Obtained/initiated financial assets	(6)	-	-	-	(6)
Allowance for depreciation as of the end of the period	**(6)**	**-**	**-**	**-**	**(6)**

As of December 31, 2021, the Bank has one debtor – a legal entity classified as a small enterprise. The company is engaged in several types of economic activity – wholesale trade in grain crops, wholesale trade in mineral fertilizers and other products, truck transport. This debt is classified as Class 1 by the bank and is secured by a pledge in the form of residential real estate.

NOTE 8. Investment in securities

Table 8.1. Investments in securities that are accounted for at amortised cost

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Government bonds in national currency	657,554	331,637
Deposit certificates issued by the National Bank of Ukraine	7,006	22,009
Provision for decreased utility	-	-
Carrying (amortised) value	**664,560**	**353,646**

The book value of securities pledged as of the end of day on December 31, 2021 is UAH 521,775 thousand.
The book value of securities pledged as of the end of day on December 31, 2020 is UAH 110 256 thousand.
As at 31 December 2021, the Bank had no securities transferred without derecognition as collateral under repo transactions.
As at 31 December 2021 and 31 December 2020, state bonds and certificates of deposit issued by the National Bank of Ukraine are neither past due nor impaired. The credit quality of these securities is limited by the sovereign rating of Ukraine.

Table 8.2. Analysis of the changes in impairment provisions

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Provision for impairment at the beginning of the period	**-**	**(793)**
Change in provision	-	793
Provision for impairment at the end of the period	**-**	**-**

Table 8.3. Analysis of changes in the gross carrying amount

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Gross carrying amount at the beginning of the period	**353,646**	**170,736**
Acquired / initiated financial assets	4,257,552	3,280,589
Derecognised or redeemed financial assets	(3,990,056)	(3,126,092)
Exchange rates differences	0	867
Other changes	43,418	27,546
Gross carrying amount at the end of the period	**664,560**	**353,646**

The amounts of financial assets redemption in this table do not correspond to the redemption amounts recorded in the Cash Flow Statement for 2021, because a part of the redemption amount of discounted bonds is shown in the Statement of Cash Flows for 2021 as interest income received.

NOTE 9. Investment property

in UAH thousand	**Land**	**Buildings**	**Total**
Balance as of December 31, 2019	**24,674**	**-**	**24,674**
Initial value	24,674	-	24,674
Depreciation	-	-	-
Balance as of December 31, 2020	**24,674**	**-**	**24,674**
Initial value	24,674	-	24,674
Depreciation	-	-	-
Withdrawal	(24,674)	-	(24,674)
Balance as of December 31, 2021	**-**	**-**	**-**
Initial value	-	-	-
Depreciation	-	-	-

There is no information on the minimum amounts of future lease payments for non-cancellable operating leases if the bank is a lessor. This is because the bank does not have operating leases of investment property under the conditions of non-repudiation.

NOTE 10. Property, plant and equipment and intangible assets

in UAH thousand	**Buildings, constructions and transmission equipment**	**Machinery**	**Transport means**	**Other tangible non-current assets**	**Capital investments in progress on fixed assets**	**Capital investments in progress on fixed assets**	**Capital investments in progress on fixed assets**	**Capital investments in progress on fixed assets**	**Intangible assets**	**Total**
Carrying value as of Dec 31, 2019	**28,110**	**8,080**	**-**	**-**	**377**	**-**	**-**	**1,982**	**2,268**	**40,817**
Initial value	31,390	9,524	-	699	377	-	-	1,982	2,759	46,731
Depreciation	(3,280)	(1,444)	-	(699)	-	-	-	-	(491)	(5,914)
Proceeds	-	9,010	1,051	846	-	-	-	3,827	3,810	18,544
Improvement	501	-	-	-	9,807	-	-	-	-	10,308
Depreciation deductions	(424)	(1,931)	(70)	(846)	-	-	-	-	(555)	(3,826)
Other changes	-	-		-	(10,159)	-	-	(4,309)	-	(14,468)
Disposal	-	-		-	-	-	-	-	-	-
Initial value	-	-		(3)	-	-	-	-	-	(3)
Depreciation	-	-		3	-	-	-	-	-	3
Carrying value as of Dec 31, 2020	**28,187**	**15,159**	**981**	**-**	**25**	**-**	**-**	**1,500**	**5,523**	**51,375**
Initial value	31,891	18,534	1,051	1,542	25	-	-	1,500	6,569	61,112
Depreciation	(3,704)	(3,375)	(70)	(1,542)	-	-	-	-	(1,046)	(9,737)
Proceeds	-	55	-	127	-	24	135	-	42	383
Improvement	231	-	-	-	86		-	-	-	317
Depreciation deductions	(428)	(3,546)	(210)	(127)	-		(8)	-	(1,526)	(5,845)
Other changes (commissioning)	-	-	-	-	(111)			-	-	(111)
Disposal	-	-	-	-	-	-	-	-	-	-
Initial value	-	(31)	-	(3)	-	-	-	-	(161)	(195)
Depreciation	-	31	-	3	-	-	-	-	161	195
Carrying value as of Dec 31, 2021	**27,990**	**11,668**	**771**	**-**	**-**	**24**	**127**	**1,500**	**4,039**	**46,119**
Initial value	32,122	18,558	1,051	1,666	-	24	135	1,500	6,450	61,506
Depreciation	(4,132)	(6,890)	(280)	(1,666)	-	-	(8)	-	(2,411)	(15,387)

As of December 31, 2021:

- fixed assets and intangible assets, for which restrictions on ownership, use and disposal are imposed by law, as well as those which are pledged or temporarily not used, are absent;
- the initial cost of fully depreciated fixed assets makes UAH 715 thousand;
- intangible assets for which there is a restriction of ownership are absent;
- self-created intangible assets are absent;
- increases/decreases which emerge as a result of revaluation as well as of impairment losses recognised/reversed directly in the equity were absent in the reporting period.

As of 1 January 2022, the Bank conducted an independent expert assessment of the market value of non-residential premises, which is accounted for as property, plant and equipment and commissioned intangible assets, the results of which showed no grounds for recognising the depreciation of such objects.

NOTE 11. Other assets

Table 11.1 Other assets

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Other non financial assets		
Accounts receivable on acquisition of assets	673	651
Prepaid expenses	525	665
Accounts receivable on obligatory payments other than income tax	248	236
Prepayments for services	117	83
Other assets (inventories of inventories of persons on account)	121	186
Reserve for decreased utility by other assets	(651)	(655)
Carrying value of other non-financial assets	**1,033**	**1,166**
Carrying value of other assets	**1,033**	**1,166**

Table 11.2. Analysis of changes in provisions for impairment of other assets for 2021

in UAH thousand	**Accounts receivable for acquisition of assets**	**Prepayment for services**	**Other financial assets**	**Total**
Impairment provision at the beginning of the period	**(648)**	**(7)**	**-**	**(655)**
Change in provision	0	4	-	4
Impairment provision at the end of the period	**(648)**	**(3)**	**-**	**(651)**

Table 11.3. Analysis of changes in provisions for impairment of other assets for 2020

in UAH thousand	**Accounts receivable for acquisition of assets**	**Prepayment for services**	**Other financial assets**	**Total**
Impairment provision at the beginning of the period	**(1,248)**	**(46)**	**(22)**	**(1,316)**
Change in provision	600	39	-	639
Write-off at the expense of provisions	-	-	22	22
Impairment provision at the end of the period	**(648)**	**(7)**	**-**	**(655)**

NOTE 12. Banks' money

Table 12.1. Banks' money

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Money received from the National Bank of Ukraine on refinancing conditions	445,173	90,000
Carrying (amortised) value	**445,173**	**90,000**

The book value of assets pledged as collateral for the Bank's obligations under the funds received from the National Bank of Ukraine on refinancing terms is UAH 521,775 thousand.

NOTE 13. Clients' money

Table 13.1. Clients' money

in UAH thousand	**Dec 31, 2021**	**Dec 31, 2020**
Legal entities	40,738	96,151
current accounts	*39,726*	*83,077*
term accounts	*1,012*	*13,074*
Individuals	735	610
current accounts	*624*	*610*
term accounts	*111*	-
Carrying (amortised) value	**41,473**	**96,761**

The concentration of clients' funds by the largest counterparty makes UAH 28,458 thousand as of 31.12.2021 and UAH 58,433 thousand at the previous reporting date.

Table 13.2. Distribution of clients' money by types of economic activity

Type of economic activity *(in UAH thousand)*	**December 31, 2021**		**December 31, 2020**	
	sum	**%**	**sum**	**%**
Real estate operations, lease, engineering and services	34,472	83.12%	86,192	89.08%
Retail, cars, household goods and personal items repair	3,122	7.53%	5,416	5.60%
Individuals	736	1.77%	610	0.63%
Other	3,143	7.58%	4,543	4.70%
Total clients' money	**41,473**	**100%**	**96,761**	**100%**

NOTE 14. Provision for liabilities

Table 14.1. Provision for liabilities for 2021

in UAH thousand	**Credit obligation**	**Tax risks**	**Other**	**Total**
Balance as of January 1, 2021	**-**	**-**	**-**	**-**
Increase/(decrease) in provision during the year	-	-	20	20
Balance by the end of the day December 31, 2021	**-**	**-**	**20**	**20**

Provision for liabilities in the amount of UAH 20 thousand is included in the cost of the asset on the right to use the leased property and determines the cost of the Bank's expenses that will be incurred when resuming the asset to the basic condition after the termination of the lease agreement.

NOTE 15. Other liabilities

in UAH thousand	**December 31, 2021**	**December 31, 2020**
Other financial liabilities		
Accrued expenses on cash settlement services	1	1
Payables on leasing (rent)	109	0
Accounts payable on inactive accounts	4	4
Carrying value of other financial liabilities	**114**	**5**
Other non-financial liabilities		
Deferred income	14	0
Accounts payable on payment settlements with bank employees	2,606	2,716
Accounts payable on acquisition of assets	230	109
Accounts payable on taxes and fees, excluding the income tax	2	4
Other liabilities	0	2
Carrying value of other liabilities	**2,852**	**2,831**
Total	**2,966**	**2,836**

NOTE 16. Subordinated debt

The table below provides information on the subordinated debt for 2021

Investor	**Date of conclusion of the agreement**	**Date of expiry of the agreement**	**Amount borrowed**	**Interest rate on the debt at the reporting date (%)**	**Carrying (amortised) value**
LLC "BOSE (Hong Kong) Co., Limited	07.02.2018	31.03.2028	11,900	0.0	9,480
Carrying (amortised) value					**9,480**

During the reporting period, amendments were made to the agreements on raising funds on terms of subordinated debt.
When making changes to the agreement on raising funds on terms of subordinated debt in terms of changing the repayment terms (prolongation) and changing the interest rate, there were changes in the Bank's additional capital, as a result of adjusting the value of the agreement on raising funds on terms of subordinated debt to fair value.
Also, the investor under one of the subordinated debt agreements was replaced, as a result of which part of the profit under this agreement, as a consequence of the adjustment of the cost of the subordinated debt agreement to fair value, was allocated to the recognized additional capital.
During the reporting period one of the subordinated debt agreements was prematurely terminated and the proceeds from the redemption were allocated to increase the Bank's share capital.

The table below provides information on the subordinated debt for 2020

Investor	Date of conclusion of the agreement	Date of expiry of the agreement	Amount borrowed	Interest rate on the debt at the reporting date (%)	Carrying (amortised) value
State innovative financial-credit institution	28.04.2015	28.04.2021	32 000	6.0	31 075
LLC "BOSE (Hong Kong) Co., Limited"	07.02.2018	09.02.2023	11 900	0.0	9 253
BOSE (Hong Kong Co., Limited)	03.03.2020	03.03.2027	47 480	3.0	47 769
Carrying (amortised) value					**88 097**

NOTE 17. Share capital, emission income and reserve funds

Share capital. As of December 31, 2021, and as of December 31, 2020, the share capital of the Bank was divided into 488,000 ordinary registered shares in the non-documented form, with a nominal value of UAH 500 each. Ordinary registered shares give their owners equal rights. There are no stock restrictions. There are no options or sales contracts. As of December 31, 2021, and as of December 31, 2020, all outstanding shares of the Bank have been fully paid up

Each share entitles its holder – shareholder to the same set of rights, including the right to participate in the management of the Bank, to receive dividends, to receive in case of liquidation of the Bank a part of its property or the value of a part of the Bank's property. The Bank did not miss out on preferred shares.

One ordinary share shall give a shareholder one vote in resolving issues at the General Meeting of Shareholders of the Bank, except in cases of cumulative voting. The shareholders of the Bank may have other rights provided for by the Bank's Articles of Association and Ukrainian legislation.

The Bank did not issue preferred shares, no dividends were paid, no decision to pay dividends was made.

The Bank's Charter stipulates that the Bank forms capital to ensure its statutory activities, during the reporting period the Bank did not carry out any activities not stipulated by the Bank's Charter (Note 1).

During 2021 and 2020 no share buyback was conducted.
As of 31 December 2021 and as at 31 December 2020 the share capital of the Bank amounted to UAH 244 000 thousand.

As of 31 December 2021 and as at 31 December 2020 the average annual number of ordinary shares outstanding is 488,000.

As of 31 December 2021 and as at 31 December 2020 share issue costs amount to UAH 261 thousand.

In 2021, the sole shareholder of the Bank BOSE (HONGKONG) CO., LIMITED LLC decided to increase its share capital to UAH 317,480 thousand by issuing additional shares in the amount of 149,960 shares with a par value of UAH 500.00 for the total of UAH 73,480 thousand. These funds were contributed by the shareholder and are recorded in the Bank's capital accounts as non-registered share capital.

Provisions. According to Ukrainian legislation, banks are obliged to form a reserve fund to cover unforeseen losses on all items of assets and off-balance sheet liabilities. The reserve fund is formed at the expense of deductions from the net profit for the reporting year, received by the Bank after taxes.

The contribution to the provisions shall be at least 5% of the Bank's profit before the provisions reach 25% of the Bank's regulatory capital.

As of December 31, 20201, and as of December 31, 2020, the Bank's reserve fund amounts to UAH 4,859 thousand.

NOTE 18. Maturity analysis of assets and liabilities

in UAH thousand	**December 31, 2021**			**December 31, 2020**		
	Less than 12 months	**More than 12 months**	**Total**	**Less than 12 months**	**More than 12 months**	**Total**
ASSETS						
Cash and cash equivalents	16,501	-	16,501	19,167	-	19,167
Loans and debts of customers	1,506	-	1,506	-	-	-
Investment in securities	476,717	187,843	664,560	317,453	36,193	353,646
Investment property	-	-	-	-	24,674	24,674
Accounts receivable on current income tax	248	-	248	248	-	248
Plant, property and equipment and intangible assets	-	46,119	46,119	-	51,375	51,375
Other assets	1,033	-	1,033	1,166	-	1,166
Total assets	**496,005**	**233,962**	**729,967**	**338,034**	**112,242**	**450,276**
LIABILITIES						
Banks' money	240,000	205,173	445,173	-	90,000	90,000
Clients' money	41,473	-	41,473	96,761	-	96,761
Provisions for liabilities	20	-	20	-	-	-
Other liabilities	2,966	-	2,966	2,836	-	2,836
Subordinated debt	5	9,475	9,480	31,195	56,902	88,097
Total liabilities	**284 464**	**214648**	**499 112**	**130 792**	**146 902**	**277 694**

NOTE 19. Interest income and expenses

in UAH thousand	**2021**	**2020**
Interest income on assets carried at amortized cost		
Loans for current activity provided to business entities	13	0
Debt securities	44,843	28,861
Total interest income	**44,856**	**28,861**
Interest expense on financial liabilities accounted for at amortized cost		
Subordinated debt	(15,707)	(7,753)
Term funds of banks	(14,872)	(2,263)
Term funds of legal entities	(408)	(193)
Lease obligations	(1)	

Current accounts	(243)	(62)
Term funds of non-bank financial institutions	(65)	(26)
Term funds of individuals	(4)	-
Total interest expenses	**(31,300)**	**(10,297)**
Net interest income	**13,556**	**18,564**

NOTE 20. Commission income and expenses

in UAH thousand	**2021**	**2020**
Commission income		
Payment settlement and cash transactions	228	68
Foreign exchange market operations for clients	29	136
Total commission income	**257**	**204**
Commission expenses		
Payment settlement and cash transactions	(219)	(100)
Encashment	-	(7)
Operations with securities	-	1
Other	-	-
Total commission expenses	**(219)**	**(108)**
Net commission (expenses)/income	**38**	**96**

NOTE 21. Other operating income

in UAH thousand	**2021**	**2020**
Income from disposal of assets derecognised in the previous reporting periods	0	500
Fines, charges received by the Bank	0	182
Operating lease (rent) income	91	81
Other operating income	1	62
Income from disposal of investment property	5 326	-
Other income	0	2
Total operating income	**5 418**	**827**

NOTE 22. Administrative and other operating expenses

Table 22.1. The cost of employee benefits

in UAH thousand	**2021**	**2020**
Salaries and bonuses	(27,483)	(27,478)
Allocation to the salary fund	(5,896)	(5,733)
Other payments to employees	(1,501)	(311)
Total cost of employee benefits	**(34,880)**	**(33,522)**

Table 22.2. Amortisation costs

in UAH thousand	**2021**	**2020**
Depreciation of property, plants and equipment and investment	(4,312)	(3,271)
Amortisation of software and other intangible assets	(1,525)	(555)
Depreciation of right-of-use assets	(8)	0
Total amortisation costs	**(5,845)**	**(3,826)**

Table 22.3. Other administrative expenses and operating expenses

in UAH thousand	**2021**	**2020**

Expenses on maintenance of fixed assets and intangible assets	(2,972)	(1,834)
Result from decrease/increase in provisions for accounts receivable on economic activities of the Bank	4	640
Other fixed assets expenses	(1 073)	(496)
Payment of taxes and duties other than the income tax	(542)	(409)
Telecommunication costs	(616)	(471)
Expenditures on information services	(233)	(295)
Audit costs	(393)	(445)
Other administrative expenses	(71)	(322)
Business and office expenses	(294)	(372)
Postal and telephone expenses	(176)	(111)
Representative expenses	(56)	(54)
Expenses on selection of staff	(35)	(278)
Professional organisations membership fees	(170)	(133)
Expenses for overalls and other means of protection of personnel	(48)	(169)
Expenses on business trips	(4)	(12)
Expenses on professional services	(190)	(113)
Expenses on securities of own issue	(20)	(26)
Marketing and advertising expenses	(50)	(16)
Insurance expenses	(40)	(18)
Other administrative and operating expenses	(264)	(209)
Total administrative and other operating expenses	**(7,243)**	**(5,143)**

NOTE 23. Income tax expenses

The table "Income tax expenses" was not presented due to the absence of expenses for the current income tax in the accounting and previous reporting periods, given the losses on the previous reporting periods, which shall decrease the taxable amount, and deferred tax income/expenses. The income tax rate in 2021 and 2020 was 18%.

Table 23.1 Reconciliation of accounting profit/loss and tax profit/loss

in UAH thousand	**2021**	**2020**
Profit before the tax	(27,934)	(21,074)
Theoretical tax deductions at the appropriate tax rate	5,028	3,793
ADJUSTMENT OF ACCONTING PROFIT (LOSS):		
Costs that are not included in the amount of expenses for the purpose of calculating tax profit but are recognised in accounting	(10)	(33)
Changes in the amount of net deferred tax asset not reflected in the statement	(5,018)	(3,760)
Income tax expenses (loss)	**0**	**0**

The information in the 2020 note has been changed to better present the income tax expense data.

NOTE 24. Profit/(loss) per share

in UAH thousand	**2021**	**2020**
Loss per year	(27,934)	(21,074)

Average annual number of ordinary shares outstanding (thousand pcs), Note 17	488	488
Net loss per ordinary share, UAH	**(57.24)**	**(43.18)**

NOTE 25. Operating segments

Table 25.1. Income, expenses and results of reporting segments for 2021

in UAH thousand	**Name of reporting segments**			**Total**
	services to other banks	**services to clients (legal entities and individuals)**	**securities transactions**	
Income from external clients:				
Interest income	-	13	44,843	44,856
Commission income	-	257	-	257
Other operating income	-	5,418	-	5,418
Total income of the segments	-	5,688	44,843	50,531
Interest expenses	(14,872)	(16,428)	-	(31,300)
Net profit / (loss) on impairment of financial assets	(44)	(6)	-	(50)
Net profit from operations with foreign currency	351	352	-	703
Net profit/(loss) from revaluation of foreign currency	(131)	(132)	-	(263)
Expenses/(income) arising on initial recognition of financial liabilities at interest rate higher or lower than the market rate	-	632	-	632
Commission expenses	(219)	-	-	(219)
Expenses on employee benefits	(5,232)	(5,232)	(24,416)	(34,880)
Depreciation cost and amortisation	(876)	(877)	(4,092)	(5,845)
Administrative and other operating expenses	(1,087)	(1,086)	(5,070)	(7,243)
SEGMENT RESULT: profit/(loss)	**(22,110)**	**(17,090)**	**11 266**	**(27 934)**

Table 25.2. Income, expenses and results of reporting segments for 2020

in UAH thousand	**Name of reporting segments**			
	services to other banks	**services to clients (legal entities and individuals)**	**securities transactio ns**	**Total**
Income from external clients:				
Interest income	-	-	28,861	28,861
Commission income	-	204	-	204
Other operating income	-	827	-	827
Total income of the segments	-	1,031	28,831	29,892
Interest expenses	(2,264)	(8,033)	-	(10,297)
Net profit / (loss) on impairment of financial assets	(156)	790	793	1 427

Net profit from operations with foreign currency	39	40	-	79
Net loss from revaluation of foreign currency	212	2120	-	424
Commission expenses	(108)	-	-	(108)
Expenses on employee benefits	(6,704)	(10,057)	(16,761)	(33,522)
Depreciation cost and amortisation	(765)	(1,148)	(1,913)	(3,826)
Administrative and other operating expenses	(1,029)	(1,543)	(2,571)	(5,143)
SEGMENT RESULT: profit/(loss)	**(10,775)**	**(18,708)**	**8,409**	**(21,074)**

Table 25.3 Assets and liabilities of reporting segments for 2021

in UAH thousand	**Name of reporting segments**			**Unallocated amount**	**Total**
	Services to other banks	**Services to clients (legal entities and individuals)**	**Securities transactions**		
SEGMENT ASSETS					
Segment assets	9,739	8,268	664,560	-	682,574
Total segment assets	9,739	8,268	664,560	-	682,574
Unallocated assets	-	-	-	1,281	1,281
Total assets (net of capital investments in fixed assets and investment property)	**9,739**	**8,268**	**664,560**	**1,281**	**683,848**
SEGMENT LIABILITY					
Segment liabilities	445,173	50,953	-	-	496,126
Total segment liabilities	445,173	50,953	-	-	496,126
Unallocated liabilities	-	-	-	2,986	2,986
Total liabilities	**445,173**	**50,953**	**-**	**2,986**	**499,112**
OTHER SEGMENT ITEMS					
Capital investment	9,226	9,226	43,054	-	61,506
Amortisation	(2,308)	(2,308)	(10,771)	-	(15,387)

Table 25.4 Assets and liabilities of reporting segments for 2020

in UAH thousand	**Name of reporting segments**			**Unallocated amount**	**Total**
	Services to other banks	**Services to clients (legal entities and individuals)**	**Securities transactions**		
SEGMENT ASSETS					
Segment assets	15,338	3,829	353,646	-	372,813
Total segment assets	15,338	3,829	353,646	-	372,813
Unallocated assets	-	-	-	1,414	1,414

Total assets (net of capital investments in fixed assets and investment property)	**15,338**	**3,829**	**353,646**	**1,414**	**374,227**
SEGMENT LIABILITY					
Segment liabilities	90,000	184,858	-	-	274,858
Total segment liabilities	90,000	184,858	-	-	274,858
Unallocated liabilities	-	-	-	2,836	2,836
Total liabilities	**90,000**	**184,858**	**0**	**2,836**	**277,694**
OTHER SEGMENT ITEMS					
Capital investment	17,157	25,736	42,894	-	85,787
Amortisation	(1,947)	(2,922)	(4,869)	-	(9,738)

NOTE 26. Financial risk management

The risk management system is a part of the general corporate governance system of the Bank and is aimed at ensuring sustainable development within implementation of the Development Strategy of the Bank.

The risk management system of the Bank is built considering its size, business model, scope of activities, types and complexity of its operations and ensure detection, measurement (assessment), reporting, control and mitigation of all material risks of the Bank to determine the size of the Bank's capital required to cover all material risks inherit in its operation.

The Bank, following one of the key risk management system principles of proportionality, applies the methods and procedures of risk management according to complexity of Bank's operations and which will allow to manage and control risks.

The risk management system of the Bank was established for the purpose of:

- detection, assessment, aggregation of material and other risks which in combination with the material risks can lead to losses which materially affect the level of capital adequacy (material risks) and control over their value (risk management);
- assessment of adequacy of existing capital of the Bank to cover detected material risks and the necessity to cover new types of risks taken to implement the measures defined by the Development strategy of the Bank (potential risks);
- capital planning based on the results of a comprehensive assessment of significant risks, testing the Bank's resistance to internal and external risk factors (stress testing).

The risk management system of the Bank includes:

✓ organisational structure of risk management;
✓ the base of internal regulations (policies, procedures and methodologies) to ensure strict regulation of risk management processes;
✓ information system supporting the Bank's risk control and monitoring activities;
✓ the system of regular reporting on risks levels.

For efficient risk management and considering the necessity to minimise the conflict of interest between taking risks, restrictions and control over risk levels, as well as audit of the risk management system, the bank has formed the organisational structure with due consideration of the necessity to distribute functions and responsibilities between Bank departments according to the principle of "3 lines of defence:

- first defence line: The Executive Board and its committees, business and business support departments;
- second defence line: Risk management department; Compliance office;
- third defence line: Internal audit service.

The Supervisory Board of the Bank is fully responsible for creating a comprehensive, adequate and efficient system of management of the risks to which the Bank is exposed in its activities. To ensure efficient functioning of the risk management system the Supervisory board has established the Risk management committee.

The Bank develops and maintains up-to-date methodologies, tools and models that are used to analyse the impact of various factors on attributable to banking activities.

Risk type identification and assessment of their materiality is conducted annually. In case of substantial changes in external and/or internal environment of the Bank which can affect the risk levels, the extraordinary identification and assessment of risk materiality can be conducted.

Types of risks for which the National Bank of Ukraine sets mandatory standards, which are to be taken into account when calculating the required capital of the Bank and / or which are recognized as material by the National Bank of Ukraine in the Regulations on risk management system in banks of Ukraine No. 64 dated on 11.06.2018, as amended, are always recognised as material for the Bank. These risks (which are material by default) are not subject to an annual materiality assessment.

The Bank recognises as material the risks associated with the main activities of the Bank, the implementation of which may lead to significant direct and indirect losses, affect the assessment of capital adequacy, as well as the ability to achieve targets and objectives, such as:

- ✓ Credit risk
- ✓ Market risk
- ✓ Banking book interest risk
- ✓ Liquidity risk
- ✓ Operational risk (including information risk)
- ✓ Strategic risk
- ✓ Compliance risk
- ✓ Reputational risk

The Bank defines the comprehensive risk appetite by establishing limits for aggregated risk and risk-appetite to certain risk by establishing material risk limits defined by the Risk management strategy of the Bank.

In its activities the Bank follows the principle of potential loss minimising and aims at ensuring the best balance between the profitability and the level of risk undertaken according to the following principles:

- ✓ the Bank does not take any risk if this is possible
- ✓ the Bank does not take more risk than its own equity allows
- ✓ the Bank does not create risky situations for excess profit
- ✓ the Bank keeps the risks under control
- ✓ The bank distributes risks among clients and participants and by types of activity (diversifies risks)
- ✓ the Bank creates the necessary provisions to cover the risks
- ✓ the Bank continuously monitors risk changes

Credit risk

During 2021, the Bank granted 1 (one) loan to a debtor-legal entity, the total debt of which, as of December 31, 2021, made UAH 1,506.0 thousand (including the principal – UAH 1,500 thousand, accrued income – UAH 12 thousand, expected credit losses (reserve) – UAH 6 thousand). Taking into account the sufficient level of liquid collateral for this operation, there is no credit risk. No loans were granted to banks. The overall level of credit risk on active operations was caused by balances on correspondent accounts of other banks, debt on securities, loans granted and receivables.

For the purposes of managing credit risks the Bank introduced:

- the structure of the credit risk management process;
- the instruments (limits) of credit risk management;
- the system to detect and manage non-performing assets;
- the procedure for forming provisions for expected credit losses (ECL);
- the procedure for determining the amount of credit risk (CR);
- the loan administration and monitoring procedure;
- the security control and evaluation procedure;
- the approaches towards stress-testing of credit risk

According to the Risk Declaration Statement, the Bank has credit risk limits:

- the maximum increase of the loan portfolio to legal entities and individuals from its size at the beginning of the year
- the maximum amount owed to a one debtor
- the maximum amount of debt per group of debtors
- the maximum amount of debt to a one debtor - the owner or a person related to the owner of the Bank
- the maximum amount of NPA as a percentage of the relevant loan portfolio
- the maximum amount of pledged property that can be accepted on the Bank’s balance sheet in case the Bank exercises its rights as a pledge holder
- the ratio of costs for the formation of the asset provisions to the total loan and investment portfolio of the Bank
- maximum concentrations on the loan portfolio by debtors, sectors of the economy, geographical regions
- the maximum amount of total credit risk.

During the reporting year, according to statistical reporting, the Bank complied with the credit risk standards set by the National Bank of Ukraine, as of the end of December 31, 2021 the standards were:

- Standard for the maximum amount of credit risk per counterparty (H7) with a regulatory value of not more than 25% – 0.63% (2020: 0,04%);
- Hop tandard for large credit risks (H8) with a regulatory value of not more than 800% - 0% (2020: 0%); Standard for the maximum amount of credit risk for related person transactions (H9) with a regulatory value of not more than 25% - 0% (2020: 0%).

Market risk

A market risk is the risk of losses, loss of planned income from changes in the value of on-balance sheet and off-balance sheet items related to the trading portfolio, as well as currency and commodity positions due to changes in market prices for financial instruments and goods because of changes in foreign exchange rates, market interest rates and other factors.

The purpose of market risk management is to ensure maximum preservation of the Bank’s assets and capital by maintaining market risk at an acceptable level, which does not threaten the financial soundness of the Bank and meets its defined goals.

The objectives of market risk management are achieved based on a systematic, integrated approach that involves the following tasks:

- obtaining prompt and objective data on the status and size of market risk;
- assessing market risk and determining its acceptable level;
- identifying and analysing factors affecting market risk;
- establishing a rapid and adequate response system aimed at minimising market risk, both in the ordinary course of business and in crisis situations.

The Bank assesses market risk mainly by:
- calculation of risk metrics;
- stress testing to determine the amount of market risk buffer required to ensure the Bank's profitable operation in the event of each scenario being implemented.

The Bank defines a minimum list of quantitative indicators of market risk appetite which consists of the maximum value under the risk or expected losses (potential losses) for each type of the market risk and/or in general for all types of market risks with differentiation between the trading and banking books as a percentage of the Bank's regulatory capital.

The Bank has a system of internal standards, limits, restrictions and key risk indicators, which allows to ensure an acceptable level of risk, including market risk.

The Bank is exposed to market risks arising from open positions of (a) currencies, (b) interest rates.

Currency risk.

Currency risk is treated as an existing or potential risk to income and capital arising from adverse fluctuations in foreign exchange rates.
The Bank assesses the currency risk as immaterial and controls it by observing the currency position limits set by the National bank of Ukraine.

The Bank assesses the currency risk at VAR (Value-at-Risk) method with consideration of correlation of exchange rates fluctuations. Value-at-Risk (VaR) reflects the maximum possible loss on exchange rate fluctuations in the Bank's open foreign currency positions with a probability of 99% and a forecast horizon of 10 days.

The Bank imposes limits with respect to:
- maximum potential value under the risk (VaR portfolio, currency) for 1-day and 10-day horizons;
- limits of the open currency position of the Bank.

Table 26.1. Currency risk analysis

in UAH, thousand	**as of December 31, 2021**			**as of December 31, 2020**		
	Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
USD	12,282	6,413	5,869	16,739	8,395	8,344
Euro	1,062	15	1,047	995	17	977
Yuan Renminbi	307	87	220	291	45	246
UAH	668,916	489,725	179,191	354,789	266,401	88,388
Total	**682,567**	**496,240**	**186,327**	**372,813**	**274,858**	**97,955**

Table 26.2. Changes in profit or loss and equity as a result of possible changes in the official exchange rate of UAH against foreign currencies as at the reporting date, provided that all other variables remain fixed

in UAH, thousand	**as of Dec 31, 2021**		**as of Dec 31, 2020**	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 5 %	293	293	417	417
USD weakening by 5 %	(293)	(293)	(417)	(417)

The notes on pages 5-52 are an integral part of the financial statements of the Bank for 2021

Euro strengthening by 5 %	52	52	49	49
Euro weakening by 5 %	(52)	(52)	(49)	(49)
Yuan strengthening by 5 %	11	11	12	12
Yuan weakening by 5 %	(11)	(11)	(12)	(12)

Table 26.3. Change in profit or loss and equity as a result of possible changes in the official exchange rate of UAH to foreign currencies, established as the weighted average rate, provided that all other variables remain fixed

in UAH, thousand	**2021 weighted average exchange rate**		**2020 weighted average exchange rate**	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 5 %	293	293	417	417
USD weakening by 5 %	(293)	(293)	(417)	(417)
Euro strengthening by 5 %	52	52	49	49
Euro weakening by 5 %	(52)	(52)	(49)	(49)
Yuan strengthening by 5 %	11	11	12	12
Yuan weakening by 5 %	(11)	(11)	(12)	(12)

Interest risk

An interest risk arises as a result of adverse changes in interest rates on the banking book. An interest risk affects the economic value of the Bank's capital and net interest income of the Bank.

The Bank measures interest rate risk as the magnitude of the change in the economic value of the Bank's equity (EVE method) and net interest income of the Bank (NII method) based on a complete and economically sound list of changes in interest rates and stress scenarios:

- The EVE method reflects the possible change in the net current value of assets, liabilities and off-balance sheet items as a result of the implementation of certain market interest rate change scenarios. The method displays the change in the value of assets, liabilities and off-balance sheet items until the expiry date of their retention without the assumption of replacement of the instrument in the event of its termination.
- The NII method reflects a possible change in the Bank's net interest income over a specified period of time, resulting in a corresponding change in the Bank's regulatory capital. It is limited to a short-term period (up to one year), taking into account the assumptions of replacing the instrument or extending it for the same period but at a new interest rate, without covering the impact of a change in the interest rate over a time horizon beyond the valuation horizon.

To measure the interest rate risk of the banking book the Bank uses the following tools:

- GAP analysis - to estimate the change in the Bank's CPA - quantitative assessment of the possible change in the Bank's NII over the next 12 months as a result of changes in the interest rates in the selected scenario.
- Modified duration method - to estimate the change in the economic value of the Bank's capital - a quantitative assessment of the possible change in the economic cost of capital as a result of changes in interest rates in accordance with the selected scenario.

The bank sets limits on:

- the amount of maximum possible losses in case of the worst-case scenario;
- the limit value of net interest margin.

Table 26.4. General analysis of interest rate risk

in UAH thousand	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than a year**	**Not under risk**	**Total**
2021						
Total financial assets	27,597	84,522	375,843	187,843	6,762	682,567
Total financial liabilities	280,349	1,124	0	214,653	114	496,240
Net interest rate gap at the end of December 31, 2021	(252,752)	83,398	375,843	(26,810)	6,648	186,327
2020						
Total financial assets	62,932	148,646	107,591	34,477	19,167	372,813
Total financial liabilities	96,047	31,913	-	146,898	-	274,858
Net interest rate gap at the end of December 31, 2020	(33,115)	116,733	107,591	(112,421)	19,167	97,955

Table 26.5. Monitoring of interest rates on financial instruments

%%	2021				2020			
	UAH	**USD**	**Euro**	**other**	**UAH**	**USD**	**Euro**	**other**
Assets								
Funds in other banks	-	-	-	-	-	-	-	-
Loans and debts of clients	13%	-	-	-	-	-	-	-
Government bonds and deposit certificates issued by the NBU	12,74%	-	-	-	13,91%	2,5%	-	-
Liabilities								
Other banks' funds	9,5%	-			6%	-		
Term funds of clients	8,14%	-	-	-	7,92%	-	-	-
Subordinated debt	0,5%	-	-	-	3,66%	-	-	-

Table 26.5 provides data on weighted average fixed interest rates based on the daily and monthly reporting to the Executive and the Supervisory Boards of the Bank.

Liquidity risk

Liquidity risk is the probability of additional losses or failure to obtain planned income due to the inability to meet its obligations in a timely and complete manner.

The source of the liquidity risk is the imbalance of the Bank's financial assets and financial liabilities (including as a result of late execution of financial obligations by one or more counterparties of the Bank) and (or) an unforeseen need for immediate and one-off fulfilment of the financial obligations by the Bank.

The purpose of liquidity risk management is to ensure the Bank's ability to comply with its financial and other obligations in a timely and full manner, both in the ordinary course of business and in crisis situations.

The Bank uses the following key methods of liquidity management:

- ✓ <u>Asset management</u>. The Bank determines the ways of placing its own and borrowed funds to obtain the maximum possible income with minimal risk, while remaining liquid.

- ✓ Liabilities management. The Bank determines the policy of managing the value of equity and borrowed funds, determines their optimal structure for their further efficient use in active operations.
- ✓ Balanced asset and liability management. Applying a portfolio approach to liquidity risk management by a coherent management of assets and liabilities.

Liquidity risk management is the process of balancing the balance sheet assets and liabilities by value and maturities. The Bank monitors the dynamics of its liabilities, analyses the terms remaining before payments, and determines in the dynamics the possibility of asset repayment. Attracting liabilities is carried out considering the possibility of their profitable placement in assets of appropriate maturity. This contributes to a more reasonable balance of assets and liabilities.

The Bank has a system of internal standards, limits, restrictions and key risk indicators, which allows to ensure an acceptable level of liquidity risk. The Bank sets the following limits for liquidity risk control:

- cumulative GAP between the requirements and obligations of the Bank for time intervals up to three years, calculated on the basis of GAP-analysis;
- concentration of the Bank's financing by one, five and ten largest depositors and other creditors of the Bank / group of related counterparties;
- liquidity ratio H6, calculated according to the requirements of the National Bank, liquidity coverage ratio (LCR) calculated according to the requirements of the National Bank and according to Bank's own algorithm;
- coverage ratio, which reflects the degree of coverage of risky investments with equity and shows the efficiency of the Bank's balance sheet structure - the value of long-term investments financed by short-term liabilities;
- the ratio of weighted average maturities of performing assets to the weighted average maturities of the Bank's liabilities;
- amounts of required reserves.

In addition to limits, the Bank also uses the following monitoring tools to assess the liquidity risk:

- daily compilation of the Billing Calendar (schedule of forecasted cash flows by sources and withdrawal by directions) taking into account the funds available to the Bank;
- analysis of the minimum provision requirements set by the National Bank of Ukraine;
- a forecast GAP analysis performed on a contractual basis with assumptions, including assumptions for new transactions (this measurement tool is applied after the start of activities);
- an analysis of the concentration of the Bank's liabilities by significant groups of counterparties, instruments / products through concentration ratios in the Bank's overall liabilities. The Bank calculates these ratios both on the liabilities of the Bank as a whole and at intervals (this measurement tool begins to be applied after the beginning of active performance);
- monitoring the existing unencumbered high-quality liquid assets;
- analysis of information on the situation on the securities market and the financial sector, as well as the market characteristics of securities included in the list of high-quality liquid assets;
- analysis of the Bank's liquidity risk within the operational day, namely the calculation of the following indicators:

    - maximum use of liquidity within the operating day
    - instant liquidity available at the beginning of each business day.

The Bank controls the daily liquidity position and regularly conducts stress-testing of liquidity under different scenarios covering standard and unfavourable market conditions.

The assets, liabilities and liquidity management is to be conducted by the Assets and liabilities management committee (ALMC). The ALMC analyses the balance between the assets and liabilities by maturities and considered recommendations for eliminating discrepancies of time. In addition, the ALMC considers the net cost of liabilities and return on assets, analyses compliance with economic standards and monitors compliance with the provision requirements set by the National Bank of Ukraine and provides recommendations for managing assets and liabilities to meet the regulatory standards. ALMC is also responsible for optimising cash flows and ensuring payment discipline; coordinates the system of corporate forecasting etc.

During the reporting year, according to the statistical reporting, the Bank had a liquidity reserve. The actual values of liquidity standards and liquidity coverage ratios exceeded the regulatory values.

Table 26.6. Maturity analysis of financial liabilities for 2021

in UAH thousand	**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**
Other banks' money	243,660	3,346	15,596	269,715		532,317
Clients' money	40,345	122	1,006	-		41,473
Subordinated debt	5	10	45	293	11,915	12,268
Other financial liabilities	8	7	34	76	-	125
Total potential future payments	**284,018**	**3,485**	**16,681**	**270,084**	**11,915**	**586,183**

Table 26.7. Maturity analysis of financial liabilities for 2020

in UAH thousand	**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**
Other banks' money	459	873	4,068	109,768	-	115,168
Clients' money	95,151	1,001	-	-	-	96,152
Subordinated debt	283	541	33,220	17,594	49,146	100,784
Other financial liabilities	5			-	-	5
Total potential future payments	**95,898**	**2,415**	**37,288**	**127,362**	**49,146**	**312,109**

Table 26.8. Maturity analysis of assets and liabilities based on expected maturity for 2021

in UAH thousand	**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**
Assets						

Cash and cash equivalents	16,501	-	-	-	-	16,501
Loans and debts of customers			1,506			1,506
Securities investment	17,858	58,656	396,408	191,638	-	664,560
Total financial assets	34,359	58,656	397,914	191,638	0	682,567
Liabilities						
Other banks' money	240,000	-	-	205,173	-	445,173
Clients' money	40,362	1,111	-	-	-	41,473
Subordinated debt	5				9,475	9,480
Other financial liabilities	5	-	-	109	-	114
Total financial liabilities	280,372	1,111	0	205,282	9,475	496,240
Net liquidity gap at the end of December 31	(246,013)	57,545	397,914	(13,644)	(9,475)	186,327
Aggregate liquidity gap at the end of December 31	**(246,013)**	**(188,468)**	**209,447**	**195,802**	**186,327**	

Table 26.9. Maturity analysis of assets and liabilities based on expected maturity for 2020

in UAH thousand	**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**
Assets						
Cash and cash equivalents	19,167	-	-	-	-	19,167
Securities investment	62,684	17,573	237,196	36,193	-	353,646
Total financial assets	81,851	17,573	237,196	36,193	-	372,813
Liabilities						
Other banks' money	-	-	-	90,000	-	90,000
Clients' money	95,760	1,001	-	-	-	96,761
Subordinated debt	283	30,913	-	9,253	47,648	88,097
Other financial liabilities	-	-	-	-	-	-
Total financial liabilities	96,043	31,914	-	99,253	47,648	274,858
Net liquidity gap at the end of December 31	(14,192)	(14,341)	237,196	(63,060)	(47,648)	97,955
Aggregate liquidity gap at the end of December 31	**(14,192)**	**(28,533)**	**208,663**	**145,603**	**97,955**	

Operating risk

Operating risk is a possibility of losses or additional expenses or lack of planned income due to defects or errors in the organisation of internal processes, intentional or unintentional actions of bank employees or other persons, malfunctions in the information systems of the bank or as a result of external factors impact. The operation risk includes legal, reputational and strategic risks.

The main sources (reasons) of operating (including informational) risks are:

- *a personnel risk* – a risk of losses related to mistakes and illegal actions of the Bank's employees, their insufficient qualification, excessive workload, irrational work organisation in the Bank, etc.
- *a process risk* – a risk of losses related to mistakes in the operations and settlement processes, their accounting, reporting, pricing, etc.
- *a system risk* – a risk of losses caused by imperfection of the technologies used by the Bank – insufficient capacity of the system, its inadequacy towards operations, rough data processing methods, low level or inadequacy of the data used, etc.
- *external environment risks* – risks of losses related to changes in the environment in which the Bank operates – changes in legislation, politics, economics etc, as well as risks of external physical interference in activities of the Bank.

The Bank's operating risk analysis and assessment is performed using appropriate tools including quantitative and qualitative methods ("the expert assessment of the Bank"). Operating risk analysis and assessment tools identify approaches to the likelihood/frequency of operating risk events and the potential magnitude of losses in the event of their occurrence, namely:

- estimation of losses and events;
- self-assessment of operating risks and controls;
- stress testing.

Within each risk bearing department the Bank has appointed employees responsible for internal control of operating risk, *i.e.* risk-coordinators. A risk-coordinator is obliged to provide information on operating risk event to the responsible employee of the Operating risk Division of the Risk-management department no later than the next day following the day of the event detection. Each operating risk event is included in the Operating risk event Base and processed by the responsible employee of the Operating risk Division of the Risk-management department.

The Bank uses key risk indicators (KRI) analysis as a system for monitoring, controlling and early prevention of change in operating risk indicators.

KRI analysis is conducted for a timely detection of adverse trends and adopting relevant decisions to minimise/avoid losses. KRI analysis is primarily applied in critical processes of the Bank with the purpose of monitoring operating risks attributable to a particular banking process.

For the purpose of clear understanding of a risk level in Bank's processes, each KRI has thresholds corresponding to the defined level of the risk. The thresholds of these indicators are calculated based on historical data (empirical approach) and/or expert estimates. The expert estimates of KRI thresholds are conducted by owners of banking processes/risk-coordinators of Bank's departments, whose activities/responsibility cover each particular indicator, with support from Risk-management department employees.

General list of Key risk indicators with thresholds include 44 indicators.

Generally, for decrease of the level of operating risk the Bank:

- introduces a management system for incidental operating risks;
- analyses and monitors the processes, products in the parts of operating risk management;
- educates employees and increases their awareness of operating risks;
- controls the compliance by Bank's employees with the regulations.

An operating risk also includes a legal risk. A legal risk is the likelihood of losses or additional expenses, or failure to meet planned income as a result of the parties failing to comply with the terms of the contracts due to their non-compliance with the requirements of the law. A legal risk can lead to punitive sanctions and administrative penalties, the need for monetary damages, deterioration of reputation, deterioration of the Bank's position in the market, narrowing of opportunities for development and diminishing the possibilities of legal support of execution of agreements.

The Bank constantly takes a number of measures to prevent and minimise legal risks, namely:

- compliance with the laws of Ukraine and the regulatory documents of the National Bank of Ukraine;
- monitoring changes in legislation that may affect the financial position of the Bank or cause changes in its operating parameters;
- reviewing the legitimacy and acceptability of customer and counterparty relationships, including verification of compliance of all contracts and agreements with Ukrainian legislation in force;
- display in the regulations, instructions, procedures and process maps of each process and operation;
- working out the terms of the standard contracts concluded by the Bank as well as their timely revision;
- establishment of appropriate control mechanisms (internal and external audit) to ensure compliance with legislation and regulations, internal regulatory requirements and agreements.

All employees are involved in operating risk management, as this type of risk has many manifestations and occurs in many situations. At the same time, the involvement of all employees does not relieve each individual employee of the appropriate level from the implementation of appropriate measures to identify, assess, control and manage operating risk.

Strategic risk

A strategic risk is an existing or potential risk to income and capital that arises from mismanagement, poor decision-making, and inadequate response to changes in the business environment. This risk arises from the incompatibility of the strategic goals of the bank business strategies designed to achieve these goals, the resources involved to achieve these goals and quality of their implementation.

Internal factors for the occurrence of the Bank's strategic risk may be:

- mistakes made in determining the strategy of the Bank's operations and development (for example, insufficient consideration of possible risks generated by the operating environment that may threaten the Bank's activities);
- incorrect or insufficiently substantiated definition of promising activities in which the Bank can achieve an advantage over its competitors without threatening to lose financial stability;
- complete or partial absence of appropriate organisational arrangements, management decisions and resources of all kinds that can achieve the strategic goals of the activities.

External factors that may influence the Bank's strategic risk are significant changes in the economic, social and political environment; changes in the legislative and regulatory environment; force majeure.

For the purposes of identifying and assessing the signs of a strategic risk, the Bank introduces a set of parameters change in status and size of which means emergence of another characteristic of a particular line of Bank's business and, accordingly, adoption of qualitatively different strategic risk.

Minimisation of a strategic risk is achieved by:

- clear definition of the mission, goals and strategy of development of the Bank enshrined in the respective internal document;
- monitoring of the Bank's market position which is required for a prompt reaction and adjustments to the current tactics and strategy;

- setting up a management reporting system for the management of the Bank allowing to promptly inform on deviations from the factual operations indicators from the planned one, as well as on efficiency of new products implementatio.

Compliance risk

A compliance risk is the likelihood of losses/sanctions, additional expenses or loss of planned income or loss of reputation due to the bank's failure to comply with legal requirements, regulations, market standards, rules of fair competition, corporate ethics rules, conflict of interest rules as well as internal regulations of the bank.

In order to ensure the efficient functioning of the compliance risk management system, the Bank has established the Compliance Office, which ensures the organisation of control over the Bank's compliance with the laws, internal documents, market and other standards.

The Bank has established and maintains a compliance risk event database, analyses the information accumulated therein and ensures that all compliance risk events are recorded in the operational risk database.

In order to ensure compliance of Bank's employees and management with corporate values of the Bank, the Bank has developed and operates:

- Code of Conduct (ethics);
- Conflict of Interest Policy;
- A mechanism for confidential reporting of unacceptable behaviour and violations in the Bank's activities, which provides for whistle-blowers' protection (whistleblowing policy mechanism);
- Procedure for investigating cases of unacceptable behaviour and violations in the Bank's activities.

Reputational risk

A reputational risk is the likelihood of losses or additional expenses or loss of planned income due to adverse perception of the image of the bank by its clients, counterparties, shareholders, supervisory and controlling bodies. A reputational risk leads to financial losses and a decrease in client base.

A risk of reputation loss is caused by an inability of the Bank to maintain its reputation as a reliable and efficient institution. A loss of confidence in the Bank by depositors may lead to an outflow of funds and insolvency. The Bank should pay special attention to the compliance with regulatory requirements, constant monitoring of liquidity and the overall banking operations' risk levels.

The Bank's reputational risk management system provides for:

- compliance with internal regulations on internal control of suspicious transactions;
- control procedures for reputational and associated risks: legal, operational and concentration;
- identification of clients according to the "Know your client" principle;
- continuous financial monitoring of client transactions within the framework of anti-money laundering measures;
- reporting to regulators.

The reputational risk is controlled through continuous monitoring of mass media, evaluation of their impact on the behaviour of the Bank's customers, and timely communication of the Bank's position both through the media and directly to the Bank's customers.

The reputation risk is mitigated by:

- compliance with prudential requirements of the National Bank of Ukraine and other state bodies;
- timely fulfilment of Bank's liabilities to clients and counteragent banks;
- compliance with financial indicators which according to the international standards indicate the stability of a financial institution;
- prompt informing of its clients and general public of activities Bank (through mass media, by distributing its own promotional products, as well as through the Bank's own web-site – www.ubrr.com.ua and social media).

NOTE 27. Capital management

The Bank manages capital for the purpose of meeting the objectives set by the shareholders. Global capital management is carried out by the Bank's Supervisory board. Tactical tasks of capital management are to ensure compliance with the requirements of the National Bank of Ukraine regarding the minimum size of the Bank's regulatory capital and capital adequacy standards. The Regulation on the Procedure for Regulation of Banks' Activities in Ukraine, approved by the resolution of the Executive Board of the National Bank of Ukraine as of 28 August 2001 No. 368 (as amended), sets the capital standards:

- the minimum amount of regulatory capital (H1);
- regulatory capital adequacy (H2).
- core capital adequacy (H3)

Regulatory capital. The minimum regulatory capital of a bank licensed shall make UAH 200 million.

The regulatory capital adequacy ratio (H2). The standard is established to prevent excessive transfer of credit risk and the risk of non-repayment of bank assets to creditors/depositors of the bank. The statutory value of this standard for operating banks should be at least 10%.

Core capital adequacy ratio (H3). Defined as the ratio of core capital to the amount of assets and off-balance sheet liabilities weighted by the relevant credit risk ratios. The regulatory value of the ratio for existing banks must be at least 7%.

According to statistical reporting, the actual values of capital ratios during the reporting year were observed by the Bank. As of 31.12.2021, the amount of regulatory capital of the Bank (including adjustments) amounted to UAH 226,389 thousand, the actual values of the regulatory capital adequacy ratio (H2) and core capital adequacy ratio (H3) – 328.05% and 311.58% respectively.

Table 27.1. Regulatory capital structure

in UAH thousand	**December 31, 2021**	**December 31, 2020**
Equity		
Actually paid registered share capital	244,000	244,000
Contributions to unregistered share capital	73,480	-
Provisions	4,859	4,859
Expenses for formation of share capital	(261)	(261)
Decrease of equity:	(97,016)	(83,229)
- intangible assets less of amortisation	(5,539)	(7,023)
- losses of previous years	(65,966)	(60,294)
- calculated loss for the reporting year including:	(25,505)	(15,912)
Loss for the reporting year	(27,934)	(21,074)
Outstanding credit risk	(228)	(191)

Result of adjusting the financial instrument value at initial recognition	2,677	5,352
Total equity	**225,087**	**165,369**
Additional capital		
Subordinated debt included in the capital	11,900	61,020
Total additional capital	**11,900**	**61,020**
Total regulatory capital	**236,987**	**226,389**

The regulatory capital of the Bank provided in table 27.1 differs from the amount of regulatory capital calculated according to the Regulation of the National Bank of Ukraine No. 368 as it was adjusted by the factual financial results of the Bank for 2021.

NOTE 28. Potential liabilities of the bank

Court proceedings. As of December 31, 2021, the Bank is a party to various court proceedings and disputes (court cases as a defendant and 1 – as a claimant). There are no potential liabilities for which there is a risk of cash withdrawal.

Capital investment liabilities. As of December 31, 2021, the Bank's liabilities for acquisition of property, plant and equipment and intangible assets are absent.

Pledged assets. As of December 31, 2021, the value of pledged assets makes UAH 521,775 thousand.

NOTE 29. Fair value of assets and liabilities

All assets and liabilities, fair value of which is measured or disclosed in the financial statements, are classified within the fair value hierarchy described below, based on the lowest-level output data significant for the measurement of the fair value as a whole.

- *Level I* – Market quotes in the active market for identical assets and liabilities (with no adjustments).
- *Level II* – Valuation models in which lowest-level output data significant for the measurement of fair value is directly or indirectly observable on the market.
- *Level III* – Valuation models in which lowest-level output data significant for the measurement of fair value is not observable on the market.

Methods and assumptions used for fair value assessment. In presenting the fair value of financial instruments, the Bank has used the following methods and assumptions:

- fair value of fixed-rate instruments that have no market quotations is calculated based on the estimated future cash flows expected. If these financial instruments are short-term, their carrying value is a reasonable approximation of the fair value;
- other assets and liabilities are short-term, and their value is approximately equal to their fair value.

Table 29.1. Fair value and level of input data hierarchy used for methods of valuation of assets and liabilities as of December 31, 2021

in UAH thousand	**Fair value under different valuation models**			**Total fair value**	**Carrying value**
	Level I	**Level II**	**Level III**		
Assets measured at fair value					
-	-	-	-	-	-

Assets fair value of which is disclosed					
Cash	16,813	-	-	16,813	16,501
Government bonds	659,182	-	-	659,182	657,554
Deposit certificates issued by the National Bank of Ukraine	7,006	-	-	7,006	7,006
Property, plant and equipment and intangible assets	-	46,676	-	46,676	46,119
Other assets	-	-	1,033	1,033	1,033
Liabilities measured at fair value					
-	-	-	-	-	-
Liabilities fair value of which is disclosed					
Banks' money	-	-	440,244	440,244	445,173
Clients' money	-	-	41,473	41,473	41,473
Other liabilities	-	-	2,966	2,966	2,966
Subordinated debt	-	-	8,653	8,653	9,480

Table 29.2. Fair value and level of input data hierarchy used for methods of valuation of assets and liabilities as of December 31, 2020

in UAH thousand	**Fair value under different valuation models**			**Total fair value**	**Carrying value**
	Level I	**Level II**	**Level III**		
Assets measured at fair value					
-	-	-	-	-	-
Assets fair value of which is disclosed					
Cash and cash equivalents	19,435	-	-	19,435	19,167
Government bonds	330,482	-	-	330,482	331,637
Deposit certificates issued by the National Bank of Ukraine	22,009	-	-	22,009	22,009
Investment property	-	24,748	-	24,748	24,674
Property, plant and equipment and intangible assets	-	51,663	-	51,663	51,375
Other assets	-	-	1,166	1,166	1,166
Liabilities measured at fair value					
-	-	-	-	-	-
Liabilities fair value of which is disclosed					
Banks' money	-	-	90,015	90,015	90,000
Clients' money	-	-	96,761	96,761	96,761
Other liabilities	-	-	2,836	2,836	2,836
Subordinated debt	-	-	77,532	77,532	88,097

NOTE 30. Transactions with related parties

In the course of its ordinary business, the Bank carries out transactions with various counterparties. Parties are considered to be related if one party has the ability to control the other party or has a significant influence over the other party in taking managerial decisions.

Table 30.1. Balances of transactions with related parties as of December 31, 2021

in UAH thousand	**Majority stakeholders (shareholders)**	**Key management**	**Other related parties**
Correspondent accounts in other banks (0.0% interest	-	-	8,245

rate)			
Clients' money (0.0% interest rate)	28,458	508	4,635
Subordinated debt (0.0% interest rate)	11,900	-	-
Deposit (interest rate 6.5%)	-	110	-

Table 30.2. Balances of transactions with related parties as of December 31, 2020

in UAH thousand	**Majority stakeholders (shareholders)**	**Key management**	**Other related parties**
Correspondent accounts in other banks (0.0% interest rate)	-	-	10,214
Clients' money (0.0% interest rate)	58,433	518	6,246
Subordinated debt (0.0% interest rate)	11,900	-	-
Subordinated debt (3.0% interest rate)	-	-	47,480

Table 30.3. Income and expenses from transactions with related parties as of December 31, 2021

in UAH thousand	**Majority stakeholders (shareholders)**	**Key management**	**Other related parties**
Interest expenses	(13,058)	(1)	(946)
Commission expenses	-	-	(89)
Commission income	4	-	13
Income from lease (rent)	91	-	-
Other operating income	-	-	-
Provision expenses	-	-	(110)
Other expenses	-	-	(27)

Table 30.4. Income and expenses from transactions with related parties as of December 31, 2020

in UAH thousand	**Majority stakeholders (shareholders)**	**Key management**	**Other related parties**
Interest expenses	(1,041)	-	(1,751)
Commission expenses	-	-	(15)
Commission income	-	60	74
Income from lease (rent)	81	-	-
Other operating income	35	-	-
Provision expenses	-	-	(135)
Other expenses	-	-	(21)

Table 30.5. Payments to key management

in UAH thousand	**2021**		**2020**	
	expenses	**accrued liability**	**expenses**	**accrued liability**
Current payments to the members of the Supervisory board	2,553	-	2,522	-
Current payments to the Executive board	3,204	782	3,199	681

NOTE 31. Events after balance date

On February 24, 2022 there was a Russian invasion of Ukraine, a military attack by Russia with the support of Belarus. According to the Decree of the President of Ukraine No. 64/2022 dated on 24.02.2022, martial law was introduced in Ukraine. This event qualifies as an uncorrected event in order to determine the impact of events that occurred after the reporting date and before the date of the financial statements for the year 2021, and may affect the results of these financial statements. However, this event may have a significant impact on the economic situation in the country, its consequences are not subject to reliable forecasting. The result of these events is not within the direct control of the Bank, the Bank's management monitors the state of development of the current situation and takes measures, if necessary, to minimize any negative consequences to the extent possible.