

**JOINT STOCK COMPANY
“AGROPROSPERIS BANK”**

Management Report and the Financial Statements
for the Year Ended 31 December 2021

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

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**Management Report of
JOINT STOCK COMPANY
“AGROPROSPERIS BANK”
for the Year Ended 31 December 2021**

Information on Management Report

JOINT STOCK COMPANY “AGROPROSPERIS BANK” (hereinafter, the “Bank” or JSC “AP Bank”) has prepared the Management Report to inform about the Bank’s significant events and performance and disclose information about economic, environmental, and social effects of its activities.

This Management Report is based on the reliable and impartial information about the prospects of development, the position and performance of the Bank during the reporting period, including the description of main risks and uncertainties the Bank is exposed to in its activities.

The Management Report has been developed in accordance with the Law of Ukraine “On Securities and Stock Market” No. 3480-IV dated 23 February 2006, the Guidelines on the Procedure for Preparation and Publication of Financial Statements of Banks in Ukraine, as approved by Resolution of the National Bank of Ukraine No. 373 dated 24 October 2011.

The previous year has become another stage in the Bank’s sustainable development: the Bank has achieved its key strategic goals and fulfilled all commitments to shareholders and customers, in full and in a timely manner. In spite of the complicated macroeconomic conditions and the prolongation of the pandemic COVID-19, the Bank succeeds in achieving a steady progress in its development. In the reporting year, the Bank continued its efforts aimed at building a universal credit and financial institution, which contributed to its image and ensured some competitive advantages in the area of banking services, primarily for small and medium-sized businesses, being a target segment for the Bank.

Taking into account new market requirements, the Bank has begun expanding its product line, introducing new products and services, and searching for the ways to optimize its sales model. At present, the Bank pays more attention to the development of new customer oriented digital banking technologies, the expansion of the range of services that can be offered via the system of remote banking.

The Bank is actively developing its risk management system and the internal control system as a solid basis for the reliable and effective operations. As a socially responsible institution, the Bank continued implementing its Environmental and Social Policy in 2021, thus, extending the framework of its social responsibility.

I. ECONOMIC ENVIRONMENT AND ASPECTS OF THE BANK'S ACTIVITIES

Market Overview¹

Due to the consequences of the war, inflation will exceed 30% yoy as of the end of 2022. It will slow in the next years, albeit remaining above the NBU's target of 5%.

The war caused a disruption of supply chains, a decrease in supply of some goods, higher business costs, physical destruction of production facilities and infrastructure, and temporary occupation of some territories. Persistently high energy prices and record-high inflation in partner countries also fueled price pressures in Ukraine. Inflation expectations of businesses and households increased markedly. This was reflected in deteriorated maturity structure of bank deposits and higher spending on some durable goods, primarily imported goods. As a result, inflation has been growing rapidly over the last months, reaching 21.5% yoy in June.

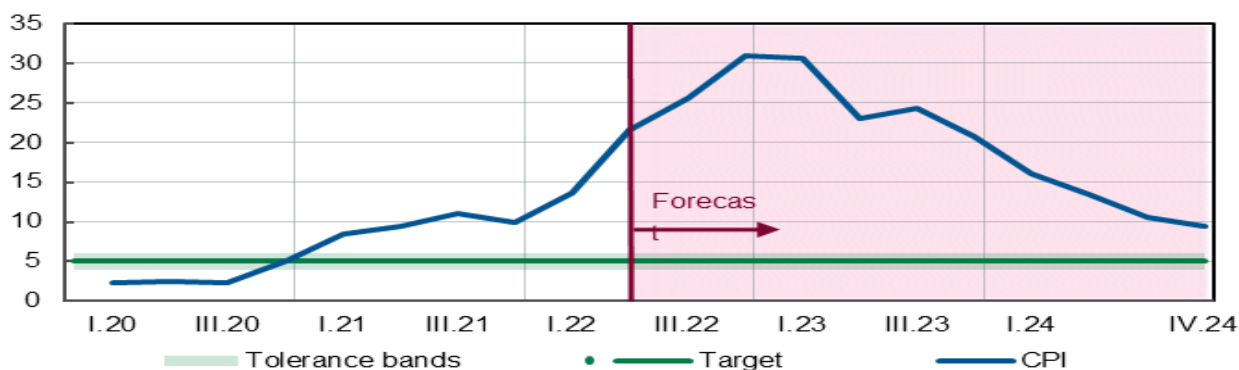
Administrative measures of the NBU and the government – primarily fixing the hryvnia exchange rate and natural gas and heating tariffs – were the key factors helping to curb inflation. Price growth was also constrained by setting up supplies of goods through western borders and by excess supply of raw agricultural products caused by the seaport blockade.

Supply shocks caused by the full-scale war will continue to strongly affect price dynamics. In the near term, the probability remains high that Russia will continue its terrorist attacks on infrastructure and production facilities in Ukrainian cities, which will disrupt logistics, increase businesses' risks, and destabilize expectations. Global energy prices will also remain high, especially natural gas prices. Inflation will keep accelerating and will slightly exceed 30% at the end of the year, despite tight monetary conditions resulting from the NBU's interest rate policy, FX interventions, and FX restrictions.

From the start of 2023, security risks will decrease, supporting a recovery in logistics and a potential to increase harvests. This would have a positive impact on expectations and weaken the inflationary effect of supply shocks. In addition, a gradual decline in global inflation and the NBU's tight monetary conditions will additionally foster disinflation in Ukraine. Consumer and investment demand will remain subdued for a long time, which will also slow down inflation. On the other hand, persistently high energy prices will be an obstacle to stronger disinflation and will require a review of utility tariffs in order to reduce quasi-fiscal imbalances. Taking into account the consequences of the war and the large contribution of the increase in administered prices, inflation will drop to 20.7% in 2023, and 9.4% in 2024. Inflation is forecast to return to the 5% target in 2025.

¹ According to the NBU's Inflation Report for July 2022
<https://bank.gov.ua/en/news/all/inflyatsiyniy-zvit-lipen-2022-roku>

CPI (as at the end of the period, % yoy) and inflation targets



Source: SSSU, NBU staff estimates

The economy of Ukraine will shrink by a third in 2022. However, the drop is to be only partly compensated in 2023-2024.

The full-scale russian invasion caused a sharp fall in economic activity in Ukraine. A third of businesses suspended their operations at the start of the war, due to physical damage and temporary occupation of territories of several oblasts, high uncertainty and risks, disruption of logistical and production chains, and forced massive migration. As a result, GDP plunged in March, falling by 15.1% in annual terms for Q1 as a whole, according to the flash estimate of the State Statistics Service of Ukraine (SSSU). The economic activity started to recover in April, and businesses and households gradually adapted to new conditions. This was also due to the liberation of northern oblasts and a decrease in the number of regions affected by active hostilities. According to the NBU's flash surveys, only 14% of businesses remained dormant at the end of the spring. Still, the capacity utilization of operating businesses was much below the pre-war period. As a result, the economy fell by around 40% yoy in Q2, as estimated by the NBU.

Hostilities in the east and south of the country, destruction of infrastructure in other regions, the blockade of seaports, and weak demand in the majority of sectors will restrain economic recovery in the next months. A major contribution to the decline in GDP will also come from weaker activity in agriculture due to the temporary occupation and laying landmines, loss of equipment and elevators, and occasional untimely and insufficient treatment of land with fertilizers and plant protection products. This will lead to the economy shrinking by a third this year.

It is expected that consumer demand will rise moderately, technological and logistical processes will be set up, and investment activity will revive in the coming years – among other things, thanks to Ukraine's European integration prospects. However, in view of the large losses of production and human potential and the still-high security risks, the Ukrainian economy will recover at the rate of around 5%-6% per year in 2023-2024.

This year, the current account will show a temporary surplus thanks to international aid. Going forward, however, it will return to deficits due to the economy's high need for imports, including imports needed for recovery.

Although slumping at the beginning of the russian invasion, Ukraine's foreign trade recovered gradually in the following months. Compared to March-April, imports grew faster than exports, due to their less heavy dependence on the blocked sea routes, rebounding domestic demand, and the expansion of the list of critical imports. This widened the external trade deficit. Largescale migration has led to higher spending by Ukrainians abroad. However, FX outflows were partially offset by international aid, including grants (current transfers according to the balance of payments methodology), sustainable remittances from

labour migrants, and a reduction in reinvested earnings. As a result, although the current account posted a surplus in January-May, the overall balance of payments recorded a deficit, due to the capital outflows, among other things, resulting from cash withdrawals from cards in other countries.

Looking ahead, the current account will return to deficits, driven by the economy's high need for imports, particularly imports needed for recovery. The deficit will be offset by substantial international aid and a gradual decline in the private capital outflows. It will allow maintaining international reserves at above USD 20 billion next year and increase them to USD 29 billion in 2024.

Maintaining the key policy rate at 25% will make hryvnia assets more attractive and – coupled with fixing the exchange rate at a new level – will help balance the FX market, thus improving the resilience of the economy.

At the start of the large-scale war, the NBU fixed the official exchange rate of the hryvnia in order to retain control over businesses' and households' expectations and kept the key policy rate unchanged at 10%, taking into account the low effectiveness of the transmission mechanism when economic agents are under psychological shock. The fixed exchange rate and the NBU's FX interventions became key instruments to support macro financial stability. However, as the economy adapted to the war and households and businesses regained the ability to make decisions based on the economic logic, the NBU in June returned to active monetary policy and hiked its key policy rate by 15 pp, to 25%. This step aimed to protect households' income and savings in the hryvnia, raise the attractiveness of hryvnia assets, reduce the pressure on the foreign exchange market, and thus enhance the NBU's capability to maintain the stability of the exchange rate and restrain inflation processes during the war.

The June increase in the key policy rate has already started to be reflected in higher interest rates on deposits and yields of domestic government debt securities. However, the reaction of the interest rates was slow, whereas FX market pressures were rising rapidly, in particular due to a sizeable growth in imports and high demand for FX cash. Taking this into account, the NBU kept the key policy rate at 25%, which will ensure further growth in hryvnia rates, and fixed the UAH/USD exchange rate at a new level in order to support Ukrainian producers, reduce demand for foreign currency, and thus balance the FX market. These steps will allow maintaining sufficient international reserves and ensuring macro financial stability.

The new level of the exchange rate will continue to be the anchor for the economy at times of uncertainty. As before, fixing the exchange rate will enable the NBU to maintain control over inflation dynamics and to support the uninterrupted functioning of the financial system. The policy of expensive money will also contribute to this. Thus, the baseline scenario of the macroeconomic forecast envisages that the key policy rate will be maintained at 25% at least until Q2 2024.

The key risks to the forecast are that the liberation war against the russian invaders will last longer and the economic policy measures will not be sufficient to achieve macro financial stabilization.

If materialized, these risks will delay economic recovery and the return of inflation to its target. That said, the unbalancing of state finances could be an even bigger threat, in particular due to the lack of or insufficient measures to achieve fiscal consolidation and activate market mechanisms of budget deficit financing. This could pose a substantial threat to macrofinancial stability, including the risk of losing control over inflationary processes. Other risks also remain important for the forecast:

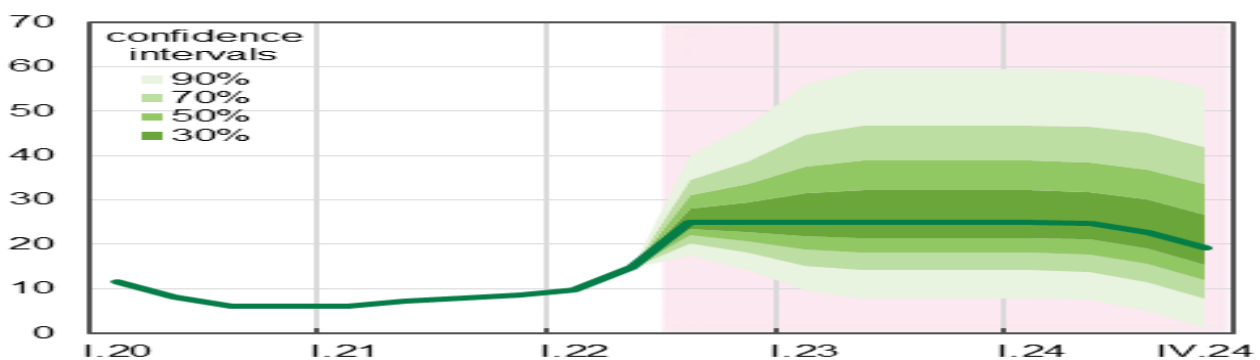
- Increased emigration, which could threaten to reduce the labor force and have long term negative effects on the labor market and economic growth after the war;
- A global economic downturn, which will decrease global commodity prices and, consequently, export earnings, while also stepping up pressure on the hryvnia exchange rate and consumer prices.

If these risks materialize, the NBU will stand ready to raise the key policy rate and take other measures to maintain monetary stability and keep inflation processes under control.

On the other hand, the rapid approval and launch of a recovery plan for Ukraine, generating foreign investment inflows and substantial funding for the country's recovery projects, could significantly accelerate economic growth and return inflation to its target more quickly than envisaged by the baseline scenario of the NBU's forecast.

Overall, the NBU assesses the balance of risks for its forecasts of inflation and the key policy rate as tilted to the upside. Moreover, current estimates bear a higher uncertainty level compared to the pre-war forecasts.

Key policy rate, average, %



Source: NBU staff estimates

Business Model, Products, and Services

JSC "AGROPROSPERIS BANK" (hereinafter, the "Bank" or JSC "AP Bank") provides a wide range of banking services. The main clients of the Bank are legal entities carrying out their activities in the agro-industrial complex.

The Bank actively attracts clients in the regions where historically the Bank's partners have gained experience in growing agricultural products, and there is an infrastructure that helps control the future harvest as the main type of collateral. To date, the Bank provides financing to agrarians in 15 regions of Ukraine, i.e. Poltavaska, Kyivska, Ternopil'ska, Kharkiv'ska, Khmelnytska, Chernihiv'ska, Lviv'ska, Rivnenska, Volyn'ska, Vinnytska, Zhytomyr'ska, Cherkaska, Sumska, Ivano-Frankiv'ska and Kirovohrad'ska regions.

In 2021, financing of small and medium-sized agricultural producers remained the priority direction of the Bank's development. The Bank's loans were mainly secured by future harvest, agricultural machinery or equipment. A priority area of development of the Bank for the short-term perspective is to expand services to corporate clients.

Main directions of the Bank's activities in 2021:

- Lending the operations of small and medium-sized agricultural producers secured by future harvest or agricultural machinery;
- Increasing the resource base by attracting funds from international organizations and private individuals on current and deposit accounts of customers;
- Conducting settlement and cash transactions and servicing foreign and economic activities of the Bank's clients.

Global trends in the financial sector show the tendency to scaling up the banking business. The financial sector is becoming more and more technological. More and more players enter the Ukrainian market proposing new technological solutions that offer affordable services to clients. Accordingly, JSC “AP Bank” considers the main direction of its further development lies, in the first hand, in increasing the efficiency of its business model. The main internal prerequisites that affect the current business model of the Bank are:

- Continuing a significant growth of corporate loan portfolio. Focusing on lending to clients in the national currency and USD.
- Granting secured loans to solvent borrowers – small and medium-sized businesses in the agro-industrial sector.
- Pursuing a policy of increasing the resource base, with its simultaneous diversification. This policy is based on attracting clients’ funds to current accounts, savings accounts on demand, and term deposits, as well as attracting resources from international financial organizations.
- Placing funds for the purpose of diversifying active operations in risk-free securities issued or refinanced by government authorities or the National Bank of Ukraine.
- Creating an effective network of outlets. The main task of branches will be to perform the initial work on attracting clients as depositors while ensuring the gradual use by such clients of digital services and attracting corporate clients.

Capital and Liquidity

Agro Holdings (Ukraine) Limited (Cyprus) is the sole shareholder (hereinafter, the “Sole Shareholder”) and owner of 100% in the share capital of JSC “AGROPROSPERIS BANK” (hereinafter, the “Bank” or JSC “AP Bank”). The main goal of capital management process in the Bank is to predict and maintain sufficient capital to safeguard the shareholder’s funds, conduct (expand) banking activities, and ensure for protection against risks in accordance with the Bank’ strategic goals established by the shareholder and approved by the Supervisory Board of the Bank. An important stage in capital management is also to ensure and maintain at the required level a sufficient level of regulatory capital required to avoid the risk of non-compliance with regulatory requirements.

The Bank, in its activities during a year, applies two basic methods of capital management (capital increment):

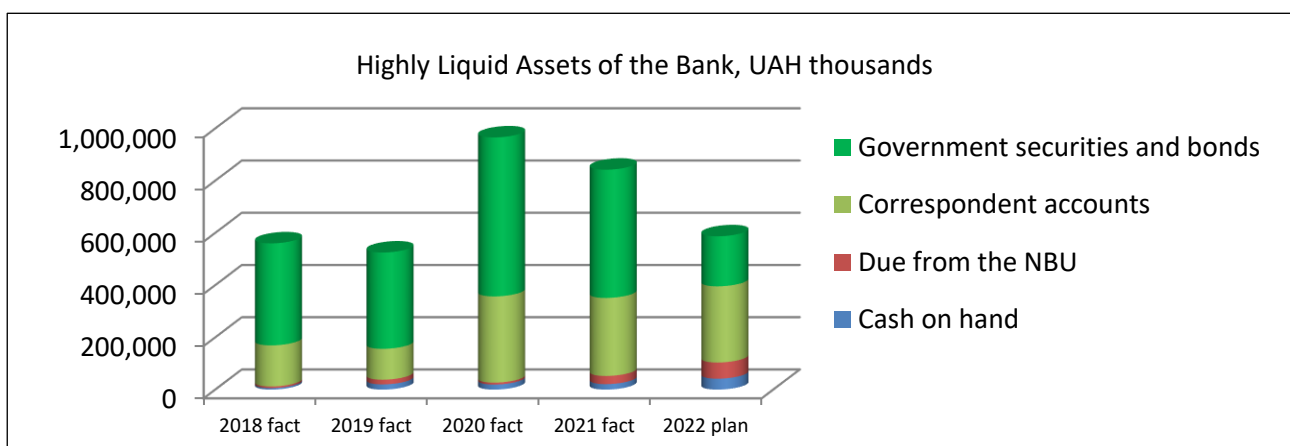
- Internal sources of capital replenishment at the cost of reinvesting profits. In April 2020, the Sole Shareholder made a decision on the distribution of profits for 2019: UAH 1.3 million to be allocated to the reserve fund to cover unforeseen losses, UAH 4.0 million to cover losses of previous years, and UAH 20.1 million to be left on the retained earnings account. In April 2021, the Sole Shareholder made a decision on the distribution of profits for 2020: UAH 30 thousand to be allocated to the reserve fund to cover unforeseen losses, UAH 566 thousand to be left on the retained earnings account.
- External sources of capital replenishment at the cost of additional issue. In October 2017, the Sole Shareholder made a decision to increase the Bank’s share capital by UAH 100 million through the private placement of ordinary registered shares. In the previous years, the Bank also used this instrument of attracting a subordinated debt. The attracted subordinated debt in the amount of USD 2.0 million was still on the face of the Bank’s capital as at 31 December 2021.

According to the Bank’s management, the regulatory capital of JSC “AP Bank”, calculated according to the methodology of the NBU, fully corresponds to the business profile and ensures for the coverage of various risks from negative consequences that the Bank assumes in the course of its activities, and ensures for sustainability and financial stability of future operations. As at 31 December 2021, the Bank’s regulatory capital amounted to UAH 307.2 million. The adequacy of regulatory capital is 23%, with the normative value of, at least, 10%.

The process of regulatory capital planning is based on capital adequacy requirements in the current and future periods in view of the risks assumed by the Bank. In the event the regulatory capital adequacy ratio is below 15% or, while reviewing the business plan, there is a low planned level of capital adequacy, the Bank’s management develops a plan for capital recovery. The business plan of the Bank for 2022 includes the amount of regulatory capital of UAH 310 million and the regulatory capital adequacy ratio of 16% to be met, which will fully ensure the compliance with the NBU’s requirements and the coverage of possible negative consequences in banking activities.

In 2018-2021, one of the priority directions of the Bank’s financial management is to improve the quality of cash flow management. Such management is currently carried out on the basis of the analysis of cash flows and their predicting, the definition of optimal liquidity in the preparation of business plans (budgets) and short-term planning. In the conditions of inflation and possible non-payment crisis, optimization of cash flows is the most topical task for the Bank to be performed in financial management. In the course of development of its business plan, the Bank takes into account the consistency of all cash flows so that to preserve liquidity (financial equilibrium) while avoiding excessive (unprofitable) liquidity. In its activities, the Bank continuously analyzes cash flows and takes necessary measures to increase cash inflows.

The main objective in liquidity management by the Bank is to form an optimal structure of the Bank’s balance sheet, as well as off-balance sheet liabilities in order to ensure stable performance of the Bank’s functions and transactions by its clients. When developing the business plan, the Bank’s management takes into account not only the ability to finance an increase in assets and timely fulfillment of liabilities, but also the negative effects of “excessive” liquidity that does not generate the required level of profits. The Bank maintains and plans to keep a significant part of its assets in highly liquid assets.



Liquidity is managed by Assets and Liabilities Management Committee of the Bank (ALCO), whose functions are to manage and control the Bank’s liquidity, manage the structure of assets and liabilities and profitability of the Bank. In planning, the Bank pays a special attention to ensure the compliance in its activities with the statutory ratios established by the NBU. The Bank significantly exceeds the liquidity ratios established by the NBU for Ukrainian banks.

Technologies and Innovations

JSC “AP Bank” strives to provide its clients with the most convenient services and top quality products. An important prerequisite for achieving this goal is to establish a high-tech and innovative banking structure. The Bank aims at keeping pace with modern technologies, focusing on innovation. The priorities for the Bank in 2022 are to:

- Increase the IT effectiveness on the investment/economic return basis;
- Ensure the seamless growth of the existing IT systems, their maximal development;
- Continue a steady expansion of functionalities and improve the remote banking systems, develop online services;
- Launch new technological products and services for clients;
- Ensure for uninterrupted and reliable operations of banking services;
- Improve the IT infrastructure as a whole system;
- Automate internal processes of the Bank.

In its activities and strategic planning, the Bank systematically continues to direct efforts and resources to achieve sustainable growth in technological and, above all, economic and technological environment. For a long-term success, investments in technologies to improve sales efficiency, reduce operating costs, and increase the quality of risk management will play a crucial role in ensuring sustainable results of development. In the reporting year, the Bank completed a number of strategic technological projects:

- Significantly expanded functionality of the Bank's core system and remote service system for clients of legal entities;
- New service for submitting statistical reporting B2ng;
- The functionality of the remote service system for private individuals and legal entities has been significantly expanded;
- In order to optimize the processes of document circulation, work was carried out on the integration of the internal document management system of the DOCS and the external document management system “Vchasno”;
- Implemented the information system for submission of financial statements in XBRL format from Mebius;
- Implemented the portal for electronic training Bank employees – AP Portal;
- Migration of all ICs of the Bank to Oracle 19c DBMS;
- The OpenVas information security vulnerability scanner was implemented;
- The vulnerability management system IB Faraday was implemented;
- The IS Bank was adapted in the mode of activity 24/7, in accordance with the requirements of the NBU regulator.

In 2022, the priority technological project of the Bank continues to be:

- The development of a system of remote banking services for individuals, development of card services, technologies of lending services, as an obligatory element of providing comprehensive banking services. According to the project inputs, the new system will be able to provide the Bank with such competitive advantages as a significant reduction of operating expenses, improved convenience for clients, and expanded sales channels. This project is expected to become the starting platform for the Bank for further projects on financial technological solutions.

- The preparation and adaptation of IC Bank's work in the mode of 24/7 (in accordance with the requirements of the NBU regulator);
- The automation of electronic document flow processes;
- The automation of internal processes, among the priority tasks of the next few years is: the development of automation of internal processes, implementation of CRM technologies, automation of the credit process and implementation of RPA (Robotic process automation).

With respect to automation of internal processes the Bank relies primarily on its own human resources. Among the most ambitious tasks of project management in the field of IT technologies, priority will be given to increasing the operational efficiency of internal processes with modern technologies attracted, focusing on the cycle of agrarian lending to ensure a stable growth of competitiveness, eliminate deficiencies in the processes, and increase the speed of decision-making.

Social and Environmental Policy

In the reporting year, the Bank continued the systematic development and implementation of its Social and Environmental Policy (hereinafter, the "Policy"), which was launched in August 2018. In 2021, the Policy remained to be one of the key elements of corporate conduct of management and of all employees of the Bank. The Bank was consistently providing an adequate regular support, human and financial resources for the implementation of the Policy, as well as was improving the management of environmental and social risks in its activities and the activities of its clients.

The main events relating to this Policy were represented by the following:

- Implementation of the Anti-Harassment Policy and other types of discrimination;
- Continuation of processes using electronic document circulation. Significant expansion of the volumes of exchange of electronic documents with customers and counterparties of the bank. The project aims, among other things, to reduce the amount of paper used and gradual transition to paper-free business processes;
- Continuation a special working regime to mitigate the impact of the pandemic COVID-19: reduced requirements for customers on the need to visit the bank, most of the bank's employees continue to remain on remote working hours, and other activities;
- Procurement of environmental goods (first of all, office supplies);
- Development of banks online services, development of projects on reducing paper carriers in the activity with the Bank's clients;
- Continued refusal to service and finance clients who do not meet the requirements of the Bank's Social and Environmental Policy;
- Search and development of tools for improving and enhancing the environmental and social risk management by taking into account the priorities of the Bank's activities, financial and technological opportunities.

In 2021, the Bank did not service corporate clients or private entrepreneurs, in particular, neither opened nor maintained bank accounts, whose activities were contrary to the environmental or social standards of the Bank.

Since introduction of the Policy in 2019, the Bank has analyzed the environmental and social indicators of credit projects and refrained from financing any activity or project that could lead to potentially significant negative environmental or social impacts.

In the reporting period, the Bank generally complied with the principle of giving priority to the clients that operate in compliance with the principles of resource efficiency, prevention, minimization, or non-increase of adverse impact on the environment.

The Bank continues to consider its staff to be the most valuable asset of the Bank in its activities. The Bank believes that, during the reporting year, safe and healthy working conditions were created for the staff. Moreover, all sufficient measures were taken to minimize any possible negative impacts on the work process. The Bank has been systematically increasing its investments in personnel (increased payroll, staff training, incentives, and inspiration for a healthy lifestyle) and intends to maintain those trends in the future.

II. STRATEGIES, GOALS, AND RESULTS

Management Goals and Strategies to Achieve Them in 2021

On 25 November 2021, the Supervisory Board of JSC “AGROPROSPERIS BANK” updated and approved the Strategy Plan of Development of JSC “AGROPROSPERIS BANK” and Business Plan for 2021-2024 (hereinafter, the “Strategy”). At present, the implementation of the Strategy and the Business Plan proves the fact that there is an appropriate coordination of all the Bank’s actions and the unity of internal goals. The practical experience gained since the implementation of the current Strategy and the Business Plan allows to be convinced that the Bank has chosen the most reasonable ways of development, there have been created the prerequisites for strategic and ongoing control and proper management of the banking resource structure.

In general, according to the results of 2021, the Bank achieved all planned goals. The Bank continued to pursue a more active policy aimed at attracting individuals’ deposits and funds from foreign investors and, as a result, increased the amount of attracted financial resources and expanded funding sources. Such actions of the Bank, together with a gradual increase in the size of the loan portfolio, made it possible to increase the balance sheet currency on 29%. The main reasons for the decrease in profits in 2021 were: the increase in interest and commission revenues of the bank, thanks to the effective management of the bank’s liquidity and the favorable conditions of the agrarian market in the world, thanks to which, the Bank also reduced the deduction to the reserves from the planned figures. The plan for profits and profitability indicators was executed with a significant rebound, from the figures that were laid down in the Bank’s Strategy for 2021.

In 2021 JSC “AGROPROSPERIS BANK” has successfully expanded and continues to extend its product line, created the prerequisites for expanding services for individuals and the first consumer loans on the Bank’s payment cards were issued. At the same time, like before, the Bank has been actively granting loans to small and medium-sized enterprises in the agrarian sector, as a result of which the loan portfolio of the Bank increased for 1.65 times. The participation in partner lending programs also significantly increased. In the meantime, the Bank has continued to implement the conservative policy on credit risk management and worked to improve the risk management and internal control system in general.

The Bank has quite successfully launched a range of projects aimed at the intensive development of the Bank’s existing infrastructure. Specifically, it has started developing remote sales channels, primarily, through the development of remote banking client services. The construction of a sufficient network of outlets, with the simultaneous implementation of a set of measures on business scaling and optimization of the applied information technologies is ongoing. The Bank continues to implement the projects for the development of new business tools and technologies of operation, and regularly optimizes its internal processes.

As a result of the above actions and measures, at the end of 2021, the Bank achieved all key strategic financial goals:

Indicators	Business Plan 2021	Actual Result 2021	Deviation
Assets, UAH million	1,879.3	2,218.4	+18.0%
Equity, UAH million	342.8	350.5	+2.2%
Profit, UAH million	2.3	10.1	+339.1%
ROA, %	0.1	0.5	+400.0%
ROE, %	0.7	2.9	+314.3%

Goals, Strategic Tasks, and Priorities for the Year of 2022

The main strategic goal of the Bank is to finance small and medium-sized producers of agricultural export products by offering credit products adapted to the agricultural business to help them and the agriculture of Ukraine as a whole to increase profitability, sustainability, and efficiency. This requires creating a structure that is adjustable and responsive to rapid changes in the external environment, attentive and innovative to the needs of clients, cautious and reasonably conservative in everyday activities.

The priority tasks of the Bank for 2022 include:

- Improving operational efficiency, increasing the share of non-interest income through offering services with the use of remote service channels, which helps reduce the cost of banking operations while improving the quality of service;
- Increasing the competitiveness of the Bank through the ability to generate new cash flows by means of introducing innovative products and high quality client service;
- Diversifying risks: increasing the share and amount of fee and commission income, pursuing the conservative policy in credit risk management, improving the risk management and internal control system;
- Increasing the amount of borrowed financing resources and expanding funding sources;
- Developing a product line, working with the existing clients by providing additional services and products, expanding services to individual clients, conducting more intensive activities under partner lending programs;
- Creating the branch network with 1 new branches to be opened in 2022;
- Enhancing the awareness of the Bank's brand.

At the end of 2022, the Bank should achieve the following key strategic goals:

Business Plan 2022	
Assets, UAH million	2,060.8
Equity, UAH million	272.1
Profit, UAH million	-78.4
ROA, %	-3.7
ROE, %	-24.4

The main financial goal of the Bank is to ensure the increase in net profits, while maintaining an adequate level of profitability and quality of the loan portfolio. In conditions of the moderate growth of the national economy and unfavorable macro-environment, achieving the financial goals seems possible only by way of the significant improvement in the Bank's internal processes, the increase in business efficiency, and adherence to the concept of the Strategy Plan of Development of JSC "AGROPROSPERIS BANK" for 2022-2025.

The main source of net profits will be interest income from financing the entities of agro-industrial complex, which should demonstrate a significant growth by increasing the amount of attracted assets and expanding the target financing markets. Another key task of the Bank is to ensure the stable growth in fee and commission income, primarily due to cash and settlement services to clients.

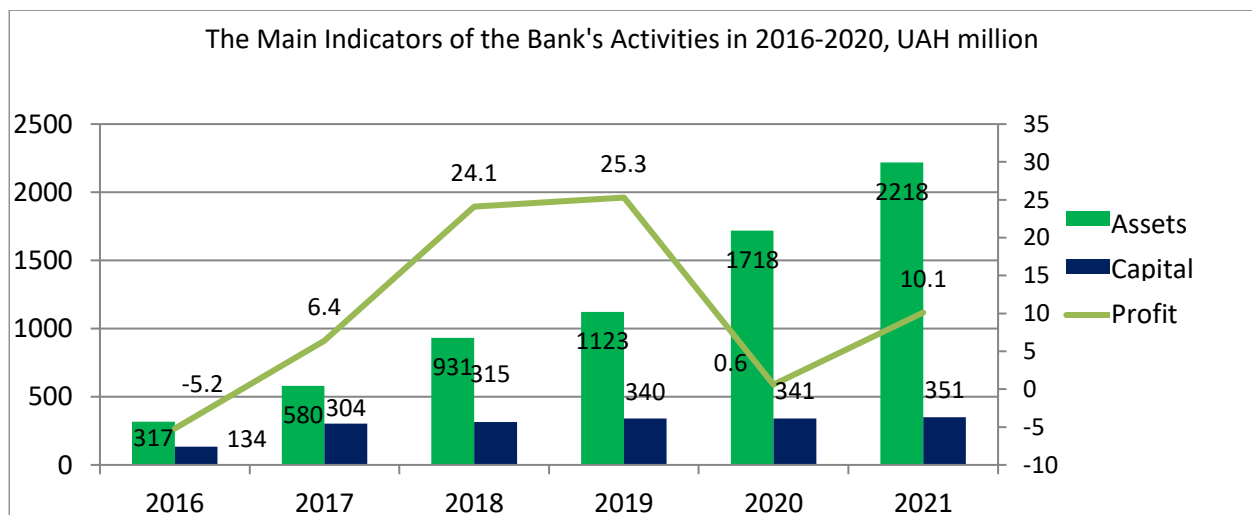
The priority task according to the Strategy 2022 is to search and attract new sources of financial resources and gradually reduce their cost. Also, the Strategy 2022 provides for the achievement of maximum cost efficiency, which implies the policy of reasonable cost planning, based on the concept of “Expenses → Profit”. For this, it is necessary to maintain an expense growth rate within reasonable limits. Cost optimization will be achieved by improving internal processes, by using automated and robotic operations.

Creating the branch network. To pursue the objectives of the Strategy of Development of the Bank and the Business Plan, namely, to ensure a rapid, reliable, and integrated growth, the Bank develops its infrastructure, including through opening new branches. This is supposed to ensure an increase in the volume of attracted financial resources and diversify their sources, expand cooperation with the existing clients by providing them with additional services and products, and improve the Bank’s image and brand awareness. In 2018, it launched a project on creating a network of bank outlets, and, accordingly, by the end of 2025, the Bank is planning to open 11 branches.

Financial and Non-Financial Performance Indicators

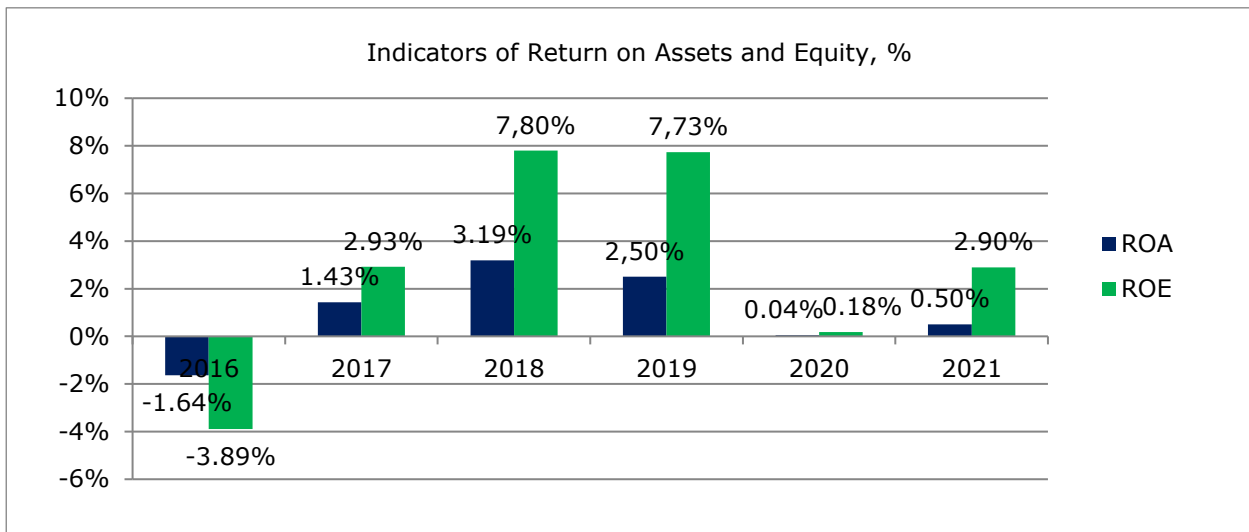
Over the recent 6 years, the Bank has demonstrated a steady positive dynamics in the growth of its assets, capital, the last 5 years the Bank has shown profitable activity:

- The Bank’s assets grew 7 times to UAH 2,2 billion as at 31 December 2021;
- The Bank’s capital increased 2.6 times to UAH 351 million as at 31 December 2021;
- Net profit in 2021 was 10.1 million hryvnia, after a significant decrease to 0.6 million hryvnia in 2020, due to the impact of the pandemic COVID-19, when the bank was forced to increase its liquidity and pay additional funds for it.



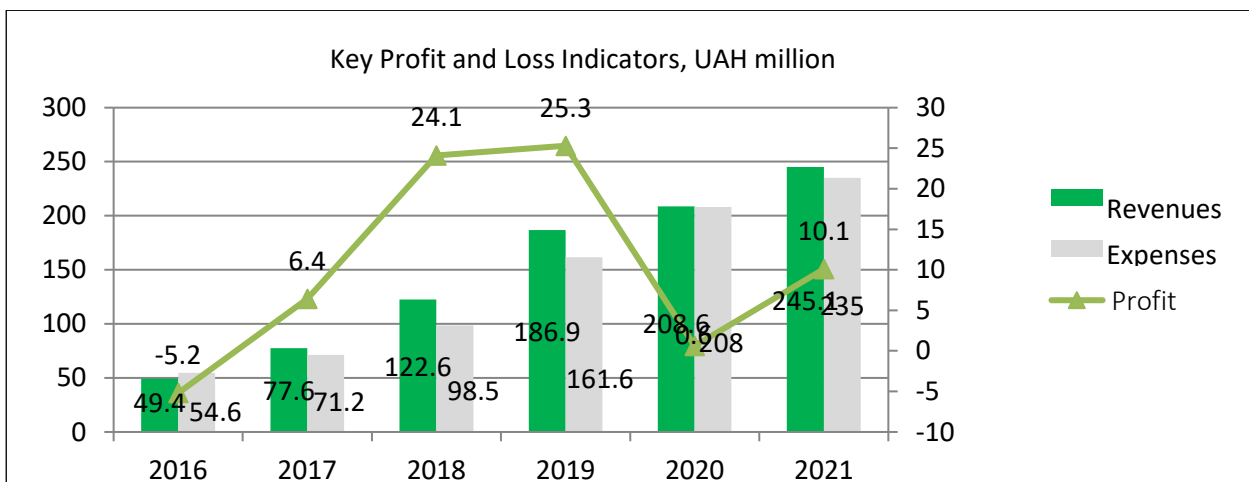
The main indicators of profitability improved compared to the previous year, due to the more profitable activity of the bank than planned:

- The ROA have grown to 0.5%;
- The ROE have grown to 2.9%.



The main indicator of the Bank's effective operations is a constant growth in revenues and profitable activity:

- During the previous 6 years, the Bank's revenues have grown 5 times and reached UAH 245,1 million in 2021.
- Net profits of the Bank for 2021 increased to UAH 10,1 million. The main reasons for the increase in profits in 2021 were: effective work with the liquidity of the bank and favorable external conditions for agricultural producers, which constitute a larger number of bank customers.

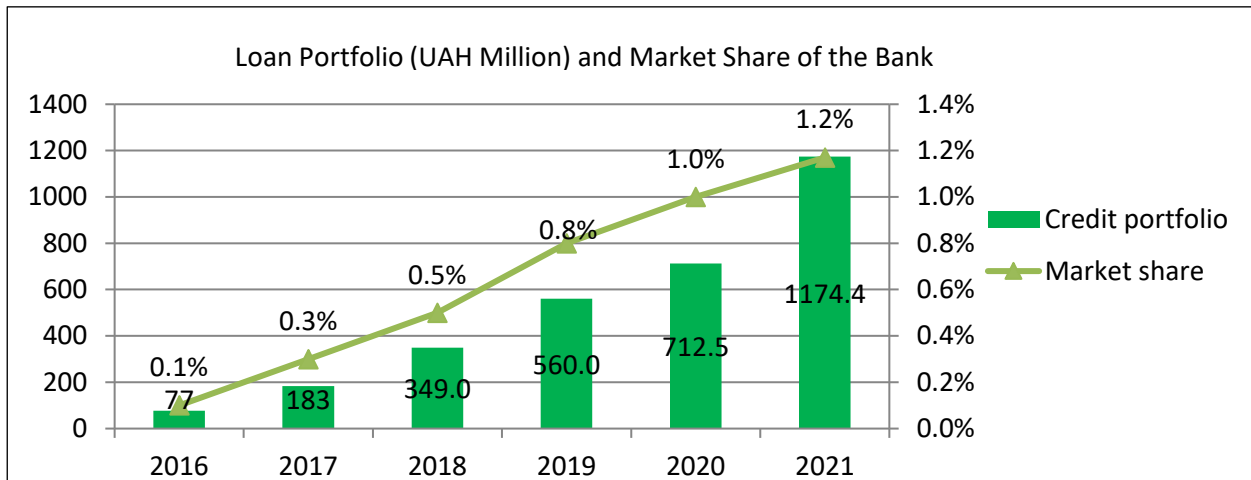


The Bank also demonstrated an increase in the efficiency of personnel, primarily, of business lines. The average number of clients attracted per regional client manager steadily increases. The efficiency of regional managers has improved 3.4 times compared to the end of 2016.

	2016	2017	2018	2019	2020	2021
Number of regional client managers of the Bank	5	8	13	15	15	16
Clients attracted by regional client managers	22	62	117	180	227	245
Number of clients attracted per regional client manager	4.4	7.8	9.0	12.0	15.1	15.3

The Bank’s share in the corporate loans market of agricultural producers continues to grow steadily:

- In comparison with the beginning of 2017, as at 1 January 2022, the Bank’s share in the market of loans to agricultural producers has increased 12 times to 1.2%;
- For the same period, the Bank’s loan portfolio has grown 15 times to UAH 1,174 million.



III. GOVERNANCE AND OPERATIONAL STRUCTURE

Management and Structure of the Bank

The current management system of JSC “AGROPROSPERIS BANK” is an effective system of controls that forms a transparent and effective corporate governance model ensuring the balance of interests of shareholders, depositors, managers, employees, business partners of the Bank, supervisory authorities, and other stakeholders.

Shareholders. The Highest Governing Body. The sole shareholder of the Bank that singly owns 100% of shares in the Bank is Agro Holdings (Ukraine) Limited (hereinafter, the “Sole Shareholder” or the “Bank’s Shareholder”) located at: Arch. Makariou III, 2-4 Capital Center, Floor 9, 1065, Nicosia, Cyprus, registration number: HE 230289.

The powers of the General Shareholders’ Meeting being the Bank’s highest governing body shall be exercised by the Sole Shareholder at their sole discretion, in accordance with the legislation of Ukraine and the Bank’s Charter. The highest governing body may resolve any matter related to the Bank’s activities, except for those that are within the exclusive competence of the Supervisory Board of the Bank in accordance with the law and/or the Charter.

The Annual General Meeting shall be held no later than on 30 April following the reporting year. The decision of the Sole Shareholder on matters within the competence of the General Shareholders’ Meeting shall be made in writing in the form of a resolution and signed by the Sole Shareholder of the Bank or their authorized representative, including a proxy. Such a resolution of the Sole Shareholder of the Bank shall have the status of Minutes of the General Shareholders’ Meeting.

The indirect owner of Agro Holdings (Ukraine) Limited is Fund “NCH Agribusiness Partners II, L.P.”. The Fund’s investors are well-known international financial institutions, universities, pension funds of the USA and Europe, in particular, the European Bank for Reconstruction and Development (“EBRD”). Fund “NCH Agribusiness Partners II, L.P.” is a member of the group of investment funds managed by NCH Capital Inc. (USA). Having been founded in 1993 in New York, NCH Capital Inc. manages investments exceeding USD 3 billion through 9 regional offices worldwide.

During 2021, there were no changes in the structure of the Owner(s).

Supervisory Board. The Supervisory Board of the Bank is a collective body that controls the activities of the Management Board, protects the rights of depositors, lenders, and the Sole Shareholder. Composition of the Bank’s Supervisory Board:

Position	Full name	Role	Information
Chairman of the Supervisory Board	Kutova, Antonina Ivanivna	Representative of the Sole Shareholder	Worked/works in LLC “Agroprosperis”, Head of Management Reporting and Controlling function; working experience over 14 years
Member of the Supervisory Board	Uglianytsia, Ivan Stepanovych	Independent Member of the Supervisory Board	Worked/works in JSC “ALFA BANK” (Kyiv), Head of Securities Dealing in International Markets, Department of Capital Markets; JSC “PASHA BANK” (Baku), Director of Investment Banking Department; working experience over 19 years

Position	Full name	Role	Information
Member of the Supervisory Board	Popushoi, Viktor	Representative of the Sole Shareholder	Worked/works in NCH Advisors (Chişinău), a representative office in the Republic of Moldova, Director of the Representative Office; working experience over 42 years
Member of the Supervisory Board	Kyrpa, Yuliia Serhiivna	Independent Member of the Supervisory Board	Worked/works in LLC "EKVO", Partner, working experience over 20 years
Member of the Supervisory Board	Savva, Valerii Yuriiiovych	Independent Member of the Supervisory Board	Worked/works in LLC "ANSTRUM LAW FIRM", Partner, working experience over 10 years

During 2021, there were no changes in the composition of the Supervisory Board of the Bank.

The Supervisory Board of the Bank did not create any committees of the Supervisory Board of the Bank.

In 2021, the Bank paid remuneration to independent Members of the Supervisory Board of the Bank in the amount of UAH 256 thousands.

There were no recorded facts of violation of internal rules that would cause damage to the Bank or clients by the Members of the Supervisory Board of JSC "AGROPROSPERIS BANK" during 2021.

During 2021, the government authorities did not apply any enforcement measures to JSC "AP Bank" or to the Members of the Supervisory Board of the Bank.

Management Board of the Bank. The Management Board is a collective executive body of the Bank, which manages its current activities and arranges for implementation of the decisions taken by the Shareholder and the Supervisory Board of the Bank. The Management Board is authorized to resolve all issues related to the management of the Bank's ongoing activities, except for the issues that fall within the sole competence of the Shareholder and the Supervisory Board of the Bank. Composition of the Management Board and key employees:

Position	Full name	Experience, areas of responsibility
Chairman of the Management Board	Serhii Shchepanskyi	Previous position: Member of the Management Board of PJSC "ASTRA BANK", LLC "AP Finance, Head of Department; PJSC "Credit Agricole Bank", Director of SME Risk Assessment Department. Working experience over 22 years. Areas of responsibility: <ul style="list-style-type: none"> • Security of the Bank (Department for Security and Protection); • Marketing (Department for Marketing); • Retail business and SME (Department for SME and Retail Business) of SME and Retail).
	Oleksii Shkliaruk	Previous position: PJSC "Credit Agricole Bank", Director of Department for Regional Risk Management and Support, an

Position	Full name	Experience, areas of responsibility
Member of the Management Board (responsible for risk management)		authorized representative of Director for Risk Assessment. Working experience over 14 years. Areas of responsibility: <ul style="list-style-type: none"> • General risk management, information security (Risk Management Department); • Credit risk management (Credit Risk Assessment Department); • Work with bad debts (Department for Treatment of Bad Debts).
Member of the Management Board (responsible for corporate business)	Serhii Kozlov	Previous position: JSC "AP BANK", Head of the Department of Agribusiness and Coordination of activities with partners. Working experience over 19 years. Areas of responsibility: <ul style="list-style-type: none"> • Agricultural financing (Agricultural Financing and Partners Relationship Department); • Organization of processes for corporate business (Department for Business Support); • Assessment of agricultural technologies (Department for Assessment of Agricultural Technologies of Borrowers); • Services to corporate clients (Department for Client Service Operations).
Member of the Management Board (responsible for legal support)	Ihor Pashynov	Previous position: LLC "AP Finance", Head of Legal Service; PJSC "FUIB", Head of Legal Department; working experience over 34 years. Areas of responsibility: <ul style="list-style-type: none"> • Legal support (Department for Legal Support); • Credit administration (Department for Credit Administration).
Member of the Management Board (responsible for operations)	Olha Lytvynenko	Previous position: PJSC "BM BANK", Head of Operations Department, Advisor to the Chairman of the Management Board. Working experience over 27 years. Areas of responsibility: <ul style="list-style-type: none"> • Operating activities (Operations Department); • Information technologies (IT Department).
Member of the Management Board (responsible for financial monitoring)	Oleksandr Maliuha	Previous position: PJSC "CREDIT OPTIMA BANK", Director of Department for Financial Monitoring, Analysis and Control. Working experience over 24 years. Areas of responsibility: <ul style="list-style-type: none"> • Financial monitoring (Department for Financial Monitoring).

Position	Full name	Experience, areas of responsibility
Chief Accountant	Tamara Ulianova	Previous position: JSC “AP BANK”, Deputy Chief Accountant. Working experience over 31 years. <hr/> Areas of responsibility: <ul style="list-style-type: none"> • Internal banking and tax accounting (Department for Internal Banking and Tax Accounting); • Statistical reporting (Department for Statistical Reporting); • Staff administration (Department for Payroll Management and Staff Administration).
Finance Director	Oleksandr Shtefan	Previous position: LLC “Proline TM”, Deputy General Director for Finance. Working experience over 28 years. <hr/> Areas of responsibility: <ul style="list-style-type: none"> • Treasury operations (Treasury Department); • Preparation of financial and management reporting (Department for Financial and Management Reporting); • Logistics and supply support (Administrative Department); • Securities services (Department for Securities Services); • Administrative support (Department for Regional Network Support).

During 2021, changes in composition of the Management Board took place, namely:

Since 05 March 2021, the powers of Panchenko Artem Vasylovych, a member of the Board of the JOINT STOCK COMPANY “AGROPROSPERIS BANK”, have been retired.

From 17 March 2021, Kozlov Serhii Mykolayovych was appointed as a Member of the Board of the JOINT STOCK COMPANY “AGROPROSPERIS BANK” (responsible for the direction of corporate business) for a period of 5 (five) years.

In 2021, the Members of the Management Board of the Bank were remunerated (salary and other benefits according to the terms and conditions of their employment agreements) in the amount of UAH 10,624 thousands.

During 2021, there were no recorded facts of violation of internal rules that would cause damage to the Bank or clients by the Members of the Management Board of JSC “AP Bank”.

During 2021, the government authorities did not apply any enforcement measures to JSC “AP Bank” or to the Members of the Management Board of the Bank.

The Management Board of the Bank has established the following committees:

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

Credit Committee. Credit Committee is a permanent collegiate body of the Bank. The main tasks and functions of Credit Committee are as follows:

- Review and approve credit limits to the Bank’s clients that expose to credit risk by way of a preliminary analysis of risks and effectiveness of the Bank’s active operations, in order to avoid or minimize potential losses and risks;
- Implement the basic principles of credit policy and risk strategy of the Bank;
- Introduce credit risk management policy, monitor its implementation;
- Approve the Bank’s judgment on credit risk assessment for active operations;
- Organize and control the work with bad debts under the Bank’s lending operations;
- Manage the process of forming a quality credit and investment portfolio of the Bank;
- Organize and control the compliance with lending procedures by the Bank’s structural units;
- Assess on a regular basis quality of the Bank’s assets and approve the amount of provisions required to cover possible impairment losses and the amount of credit risk on active banking operations calculated in accordance with the regulations of the National Bank of Ukraine and the internal regulations of the Bank.

Composition of Credit Committee:

Position	Full name	Role/Position in Committee
Member of the Management Board (responsible for corporate business)	Serhii Kozlov	Head of Credit Committee
Chairman of the Management Board	Serhii Shchepanskyi	Deputy Head of Credit Committee
Member of the Management Board (responsible for risk management)	Oleksii Shkliaruk	Member of Credit Committee
Member of the Management Board (responsible for legal support)	Ihor Pashynov	Member of Credit Committee

Assets and Liabilities Management Committee. Assets and Liabilities Management Committee of the Bank (“ALCO”) is a permanent collegiate body of the Bank.

The main tasks and functions of ALCO are as follows:

- Review the current structure of the Bank’s assets and liabilities by maturity and approve limits on banking operations in case of liquidity risk identification;
- Consider the Bank’s compliance with the norms for provisioning funds on the Bank’s correspondent account held with the National Bank of Ukraine and coordinate measures to maximize the Bank’s profits while placing temporarily free funds, with simultaneous compliance with provisioning rules;
- Implementation currency risk management procedures in accordance with the Bank’s risk strategy, monitor its compliance;
- Set standard interest rates (including interest rate ranges) for all loan and deposit products, set individual deposit and credit rates for certain clients and groups of related counterparties;
- Consider possibilities for attracting long-term and short-term financing, in accordance with the forecast of liquidity and interest rates;

- Develop tools for monitoring the Bank's compliance with mandatory performance ratios set by the NBU, including:
 - Liquidity ratios;
 - Core and regulatory capital adequacy ratios;
 - General ratio for investing and, separately, investing in securities;
 - Ratios and limits for currency positions.
- Fulfill other tasks according to the Bank's Assets and Liabilities Management Policy.

Composition of Assets and Liabilities Management Committee:

Position	Full name	Role/Position in Committee
Finance Director	Oleksandr Shtefan	Head of ALCO
Chairman of the Management Board	Serhii Shchepanskyi	Deputy Head of ALCO
Member of the Management Board (responsible for risk management)	Oleksii Shkliaruk	Member of ALCO
Member of the Management Board (responsible for corporate business)	Serhii Kozlov	Member of ALCO
Head of Treasury	Liudmyla Korshevniuk	Member of ALCO

Tariff Committee. Tariff Committee of the Bank ("Tariff Committee") is a permanent collegiate body of the Bank. The main tasks and functions of Tariff Committee are as follows:

- Develop customer service rate policy;
- Approve tariff rates for products, operations, and services of the Bank;
- Consider proposals from structural units concerning tariff policy issues and take relevant decisions;
- Manage client segments;
- Monitoring the dynamics of banking products sales;
- Analyze the competitive environment.

Composition of Tariff Committee:

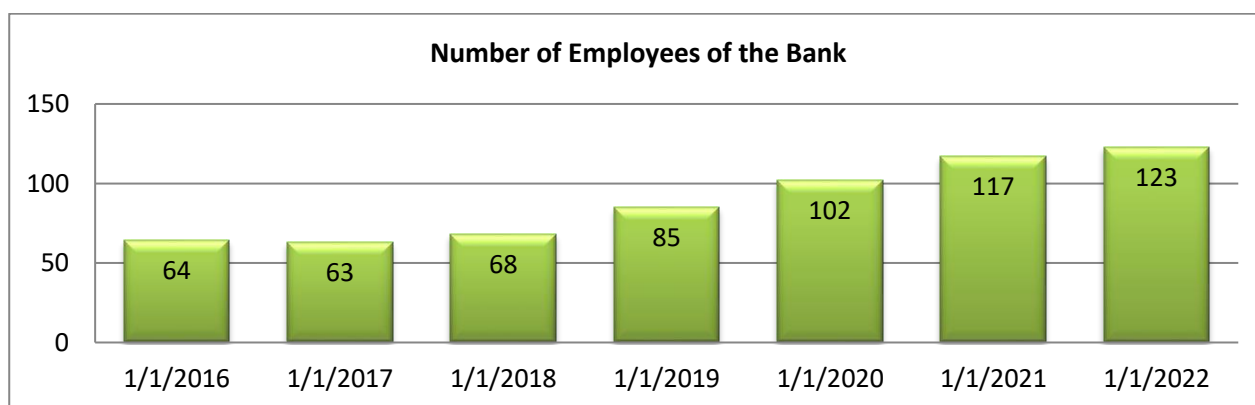
Position	Full name	Role/Position in Committee
Member of the Management Board (responsible for corporate business)	Serhii Kozlov	Head of Tariff Committee
Chairman of the Management Board	Serhii Shchepanskyi	Deputy Head of Tariff Committee
Member of the Management Board (responsible for risk management)	Oleksii Shkliaruk	Member of Tariff Committee
Finance Director	Oleksandr Shtefan	Member of Tariff Committee
Member of the Management Board (responsible for operations)	Olha Lytvynenko	Member of Tariff Committee
Head of Customer Operation Service Department	Maryna Vyshnevetska	Member of Tariff Committee

Personnel

The purpose of the Human Resources Policy of JSC “AP Bank” is to retain, strengthen, and develop its own human resources potential, to create a highly effective team for achieving the best results. The Bank’s HR management is based on the principle of synergy for achieving individual and corporate goals.

As a whole, the HR Policy of the Bank in the reporting year was not subject to significant changes. The Bank continued to build relationships with its employees, based on the principles of long-term cooperation, mutual respect, and steady fulfillment of assumed obligations. The Bank did not allow any forms of discrimination based on political, religious, racial, national, sexual, or other similar factors towards its employees in the course of employment, remuneration, promotion. As a result, the Bank recorded no complaints or claims from its employees regarding discrimination or discomfort in the working environment during the reporting year.

The Bank’s staff is steadily growing. In 2021, the development of the regional network of the bank continued: a new outlet has been opened in Kyiv.



The Bank, according to the Strategy, seeks to build relations internally following the principle of work of “Teal Organizations”. A key element in such organizations is the need to establish relationships between employees based on mutual respect, tolerance, professionalism, openness, and honesty. The main tool used to achieve this goal is the “tone from top”, i.e. management of the Bank shall demonstrate and promote the behavior style in accordance with the above principle. Every employee of the Bank has the opportunity to fairly defend his or her rights and openly express their positions about the issues related to the Bank’s activities, working conditions, or remuneration. The Bank encourages taking initiative and innovating while performing official duties. Every employee of the Bank, regardless of the position, has the right to express his or her opinion and make proposals for the improvement of the Bank’s activities.

The Bank tries to create appropriate conditions for a professional and career growth of the Bank’s employees. One of the key motivations for the staff offered by the Bank is a career promotion. The main criteria for the promotion of employees are professionalism, specific achievements in work, as well as skills and personal traits. Every employee of the Bank has the right to freely receive information on vacancies and to offer his or her candidature for filling any of the vacancies available in the Bank.

HR analytics for 2021:

- Average age of employees is 41 years;
- Average work experience in banks – 16 years;
- Women/men bank – 55.3 %/44.7%;

- Staff fluidity – 9%;
- Engagement level – 55%;
- Loyalty level of staff (Commitment) – 74%.

Recruitment. The Bank’s personnel policy ensures diversity of staff, which includes education, professional qualification, age, gender, and geographical origin. Candidates for vacancies in the Bank shall be selected on a competitive basis. Preference is given to highly qualified personnel.

The strategic focus for the Bank is to work with the employer’s brand, which is inextricably linked to business strategy, HR strategy and corporate culture. Well-being and quality of employee’s life, care for well-being and compliance with ethical standards are the main directions of the Bank’s personnel management strategy, which makes the Bank an attractive and desirable employer. Within the framework of the project on the selection of young specialists, the Bank, supporting the brand of a socially responsible employer, in 2021 cooperated with higher educational institutions, taking an active part in job fairs. To place their own vacancies, the Bank uses social networks, in particular, has its own corporate pages on Facebook and LinkedIn networks.

Incentive program. An important strategic task of the Bank is to build an effective motivation system. For the Bank, motivation is the most important factor in attracting highly qualified personnel, retaining the most valuable staff members, and developing personnel in the conditions of rapid development of banking processes and changes in the environment. JSC “AP Bank” applies a system of remuneration in the form of a monthly basic salary (agreed pay), bonuses (incentives), and benefits. There are regular and one-time bonuses available. One-time bonuses are paid as incentives for special achievements. The criteria for determining remuneration level are as follows:

- Market salary level for staff;
- Financial capabilities of the Bank;
- Personal results of each employee’s activities.

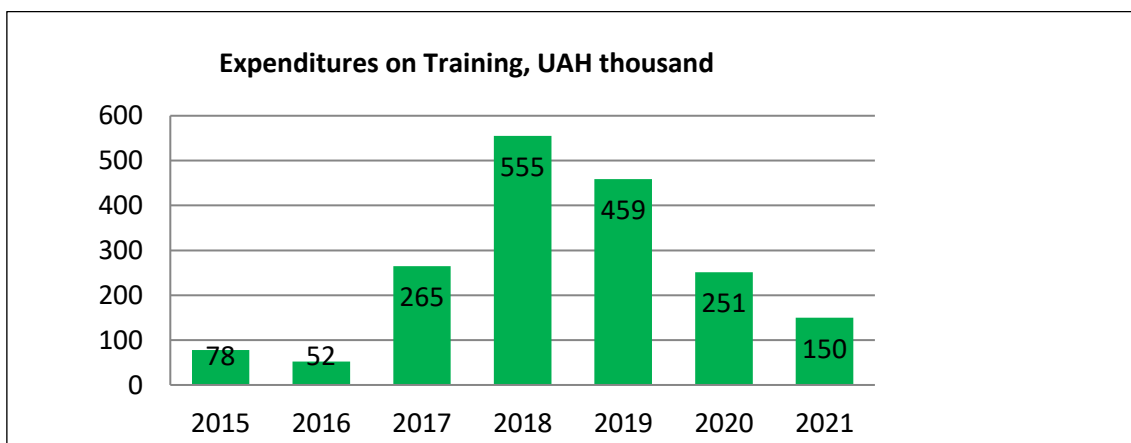
In addition to monetary incentives, the Bank has introduced the following types of non-monetary ones for the staff:

- Transparent job conditions (official employment, strict, timely and fully fulfilling the employer's obligations on remuneration, compliance with labor legislation, fair bonus system);
- Opportunity to constantly develop and improve your professional skills;
- Health insurance of employees;
- Availability of corporate communications;
- Creation and support of friendly, open, harmonious relationships in the team, compliance with corporate culture;
- Hybrid format of Sharing Desk – the ability to work part of the days remotely, part - in the office;
- Care for the physical and mental health of staff, social protection (introduction of preventive measures for the spread of coronavirus infection: remote work; providing vehicles during lockdown; providing employees with personal protective equipment: masks, gloves, antiseptics; diagnostics of COVID-19 at the expense of the employer; installation of protective screens; disinfection of premises, organization of vaccination, etc.).

The Bank’s employees may receive financial aid if needed for medical treatment, birth of a child, death of immediate relatives, etc. In 2021, 25 employees received the financial aid in the amount of UAH 407 thousand, as well as by adding new options to the insurance program, the quality of the health insurance package was significantly improved.

Training. Another key factor that directly favors the Bank’s performance and improves the efficiency of human resources is a close attention of the Bank to the staff training process. The Bank exerts significant efforts to create the best conditions for employees for further professional development. Bank employees were able to take part in various events in the form of webinars, conferences, exhibitions, forums, master classes, take courses and trainings on topical issues of their professional direction, 90% of which took place in the workplace in an online format with the development of talents and leaders of tomorrow. The Bank provides regular training of employees on risk management culture, compliance with the code of conduct and ethics, compliance, information security, etc.

The Bank continues to actively improve and enrich the learning and development ecosystem with a focus on digitalization of formats and operational access. In 2021, the Bank implemented a comprehensive WebTutor system that allowed automating business processes related to training, testing and development of personnel. On the training interface "AP PORTAL" webinars, trainings, training courses, thematic selections of useful materials are constantly available for employees, as well as an opportunity to pass testing at a convenient time. The digital learning format provided an opportunity to reduce costs, while employees were able to study at their own pace at a convenient time, which led to improved productivity, an increase in the amount of learned knowledge, expansion of the audience, and time saving.



The allocation of adequate internal resources, transition to electronic training of personnel allowed to improve the efficiency of staff and its preparation for the implementation of new strategic tasks, increase the level of employee loyalty to the Bank. This policy, in general, allows to ensure low turnover of personnel, which directly affects the stable level of operational risk of personnel and on the Bank’s results as a whole.

IV. CORPORATE GOVERNANCE, CONTROLS, AND RISK MANAGEMENT SYSTEM

Corporate Governance

In the reporting year, the bank strengthened corporate governance standards, taking into account the size, peculiarities of its activities, the nature and volumes of banking and other financial services, its risk profile. The bank created a proper organizational structure and internal control system.

Corporate governance at JSC “AGROPROSPERIS BANK” is a process that ensures effective management of the Bank’s activities in order to increase its capitalization and guarantee the reliability of its operation. Corporate governance focuses on creating a system of controls that ensure the coordination of interests of the Sole Shareholder, management, clients, and other stakeholders of the Bank. In JSC “AP Bank”, corporate governance is carried out in accordance with the applicable legislation of Ukraine and is based on the requirements of the Civil and Commercial Codes, the laws of Ukraine “On Banks and Banking”, “On Joint Stock Companies”, “On Securities and Stock Market”, on regulations of the National Bank of Ukraine and the National Securities and Stock Market Commission, the Articles of Association of the Bank, resolutions of the Sole Shareholder, decisions of the Supervisory Board and the Management Board of the Bank.

The Bank provides all necessary information about corporate governance, as required according to the applicable legislation of Ukraine concerning corporate governance.

In its activities, the Bank follows the Principles (Code) of Corporate Governance of JOINT STOCK COMPANY “AGROPROSPERIS BANK” (the “Code”), as approved by Resolution of the Sole Shareholder No. 4 dated 22 October 2018. The Code is publicly available on the Bank’s website at: <https://ap-bank.com/documents/download/531>.

Internal Audit

Internal Audit Department (IAD) is an independent structural unit of JSC “AP Bank”, which is subordinated directly to the Supervisory Board of the Bank, carries out its activities in accordance with the requirements of the legislation of Ukraine, including regulatory legal acts of the National Bank of Ukraine, international standards of professional practice of internal audit, which are documents (requirements) adopted by the Council on International Internal Audit Standards (International Internal (IIASB)).

IAD of JSC “AGROPROSPERIS BANK” belongs to the third line of protection of the internal control system of the Bank, executes independent, objective activities to provide confidence in the assessment of the Bank’s systems and processes, which benefits the Bank and improves its activities.

IAD carries out an independent assessment of the effectiveness of the first and second lines of protection and an overall assessment of the efficiency of the internal control system.

The Supervisory Board and the Management Board of the Bank provide IAD with the support necessary for the smooth performance of their duties.

In the reporting year, the IAD performed audits in accordance with the Audit Plan for 2021, which is compiled on the basis of a risk-oriented approach to ensure the assessment of those areas of the Bank’s activities, which contain the greatest risks.

During each audit, special attention was paid to assessing the effectiveness of the internal control system, risk management system, corporate governance.

Reports on the results of internal audit audits, including recommendations for improving the internal control system and minimizing the identified risks, were provided to responsible employees (owners of the verified process), the Management Board and the Bank's Supervisory Board. Monitoring the implementation of recommendations provided by IAD aimed at improving internal control and risk management systems is carried out on a permanent basis.

The activity of the internal audit unit in 2021 was built in compliance with the principle of organizational independence

External Audit

In 2021, there were neither conflicts of interest nor overlapping of external audit functions.

The Supervisory Board of JSC "AP Bank" by its decision appointed the audit firm, Limited Liability Company "Deloitte & Touche Ukrainian Services Company" (LLC "Deloitte & Touche USC"), identification code of the legal entity: 25642478, location: 48, 50a Zhylianska Str., 01033, Ukraine, tel. (044) 4909000, to perform an external audit of the Bank's financial statements for 2020. The auditor's report is signed by Natalia Samoilova. LLC "Deloitte & Touche USC" provides audit services to the Bank for the fourth year, starting with the audit of the financial statements for 2018.

LLC "Deloitte & Touche USC", the audit firm, was founded on 17 June 1998. It performs its professional activities in the market of audit and accounting services on the basis of the Certificate issued by the Audit Chamber of Ukraine No. 322/3 dated 25 February 2016, and has the total audit experience of more than 25 years.

During 2021, LLC "Deloitte & Touche USC", the audit firm, was not subject to any penalties imposed by the Audit Chamber of Ukraine, and the authorities responsible for state regulation of financial services markets recorded no facts about the submission of incorrect statements by the financial institution confirmed by its auditor's opinion (report).

In 2021, the Bank received the following professional services from the auditing company, except for statutory audit services, namely: consulting services on the analysis of management's statements regarding the effectiveness of the Bank's controls under transactions with customer accounts and services for assessing the quality of the Bank's active banking operations.

During the years of 2015-2017, all audit services were provided to the Bank by the audit firm, PJSC "KPMG Audit".

Risk Management System and Strategy

In order to protect the interests of depositors and creditors of the Bank, minimize and avoid the impact of risky activities, the Bank has created its risk management system appropriate for its size, business model, scale of activities, types, and complexity of operations.

The main purpose of risk management at the Bank is to create an effective system of identification, measurement, monitoring, and control of all types of risks to achieve current and strategic goals of the Bank, to minimize unexpected losses upon the occurrence of adverse conditions, to ensure stability of business operations and financial sustainability.

In the course of operations, regular stress testing of risks and in case of any signs of a crisis/critical situation for the Bank and/or the banking system, the Bank identifies other risks that may have a negative impact on the performance indicators, depositors, creditors, and clients of the Bank. If the identified risks are material, the Bank revises the whole risk management system in order to identify, assess, monitor, report, control, and mitigate the identified material risks to determine the amount of capital required to cover all material risks inherent in the Bank’s activities.

The concept of risk management in the Bank is based on the following fundamental principles:

- The Bank uses a comprehensive approach to risk management and treats them not individually, but collectively, which allows to consider the probability of several risks at once;
- Risk assessment is based on the approach of predicting and forecasting possible consequences;
- Risk management system is characterized by a high level of responsibility;
- Risk management units are independent in performing their functions from the circumstances that threaten their impartiality;
- Risk management is carried out subject to the level of risk tolerance;
- Duties are separated (controls from operations) to avoid a situation in which the same person in the Bank carries out both operations and control functions;
- Risk management system facilitates the enhanced level of transparency through exact channels of communication;
- All employees of the Bank are well aware of their duties and responsibilities in the risk management system.

The main risks that the Bank faces include market risk, credit risk, liquidity risk, interest rate risk, currency risk, operational risk, information risk, reputational risk, legal risk, and strategic risk.

The risk management system provides for identification, measurement (assessment), monitoring, reporting, control, and mitigation of all material risks in order to determine the amount of capital required to cover all material risks inherent in the Bank’s activities (internal capital). The key blocks of risks and uncertainties for the Bank in the next few years are as follows:

Key strategic risks of the Bank	Risk mitigation measures
<p>Risks that the Covid-19 pandemic intensifies, the rapid spread of the Omicron strain, new mutations appear, and, as a result, the macroeconomic situation deteriorates in Ukraine and globally Given the dynamics of the disease incidence, the emergence of new strains of coronavirus, and the speed of their spread, which leads to changes in the global financial sector, turmoil of the national and world economy, macroeconomic indicators are likely to deteriorate significantly, with the recovery taking quite a long period of time.</p>	<p>Balanced credit policy and operational risk management policy, support of liquidity reserve and financial resources, regular implementation and actualization of anti-crisis plan in case of the liquidity crisis, and business continuity plan, emphasis on finding long-term sources of financing.</p>
<p>Geopolitical risks A significant increase in military forces near the borders with Ukraine, which leads to an increase in the level of uncertainty and, consequently, more conservative judgments and actions on the part of the Bank's clients, including of increasing the deposit</p>	<p>More meticulous monitoring of the geopolitical situation in Ukraine and the world, dynamics of the deposit and loan portfolio, tracking the main trends in the market, customer behavior, competitors and major stakeholders.</p>

Key strategic risks of the Bank	Risk mitigation measures
portfolio of individuals and legal entities, and a request from clients for lending.	Balanced credit policy and liquidity risk management policy, actualization of the anti-crisis plan in case of liquidity crisis, BCP plan.
Concentration risk Financing of exclusively small and medium-sized agribusinesses causes material risks inherent in the field of agriculture in general (poor harvest, lower prices for products).	Search for alternative ways to make profit, increase fee and commission operations, allocate free resources to reliable assets.
Technology risk The pace of global technology development necessitates being active in the race for introduction of new technologies between the Bank and its competitors.	A gradual increase in financing of IT technologies, creation of high-quality remote channels of sales and communications with clients.
Market risk The sector for financing small and medium-sized agrarians is a promising and attractive direction for the development of existing and potential competitors of the Bank, which can strengthen competition in the segment.	Improvement of the credit process, expansion of the product line, and implementation of deep client-oriented policy by the Bank.
Risk of loss of profitability Trends to lower discount and credit rates, tighter regulatory requirements and regulations, the need to create a complex management system, the need for significant investments in the IT sector and banking infrastructure may lead to the excess of costs over revenues.	The risk will be reduced by gradually reducing the cost of funding, maintaining a high rate of development of the Bank's business and total profitability, as well as focusing on achieving maximum business margin.

Credit risk. The Bank determines this risk as a probability of losses or additional losses, or failure to receive the planned revenues as a result of non-performance by debtors/counterparties of their contractual obligations assumed.

The Bank performs identification and assessment of credit risks at the individual and portfolio levels. At the individual level, the Bank performs identification and assessment of a particular counterparty/group of related counterparties during the preliminary analysis of existing risks (both current and potential) before their actual acceptance and ongoing monitoring.

The Bank manages credit risk by using the following key strategies:

- Strategy of risk non-acceptance;
- Strategy of risk acceptance subject to its minimization;
- Strategy of risk acceptance and management.

The Bank monitors and controls credit risk, as well as analyzes the compliance with the standards established by the National Bank of Ukraine for credit risks by regularly checking both the state of the loan portfolio and individual indicators of performance, as well as servicing loans by individual counterparties/groups of related counterparties.

In order to mitigate and minimize credit risk, the Bank regularly reviews its approaches to assessing counterparties/groups of related counterparties and, if necessary, corrects them; carries out regular monitoring of the state of the loan portfolio in order to prevent possible deterioration in debt servicing by borrowers and, in case of overdue payments, selects the optimal strategy for collecting such debts.

As the Bank has been focusing on lending to the agro-industrial complex and agricultural producers since 2015, in the future, it is planned to improve the credit risk controls and management by collecting and considering the Bank's own statistics in the internal models of credit risk assessment.

The Bank's risk strategy for 2021-2022 sets the following targets for credit risk:

- Cost of Risk (CoR) < 2.0%, defined as the net increase in provisions covering possible losses under credit operations for the period in relation to the size of the portfolio at the peak of the season (July-September), without taking into account the impact of changes in the exchange rate. As a result of 2021, the CoR Cost of Risk indicator amounted to 0.46% due to the repayment of bad debts for several clients, followed by the disbanding of reserves to cover alleged credit losses.
- NPL ratio < 2.7%, defined as the ratio of the total loans classified as "non-performing" (NPL) to the total loan portfolio. According to the results of 2021, NPL ratio was 0.72%.

Market risk. The Bank's main market risks, taking into account the scope and specifics of operations, are currency risk and interest rate risk in the banking book. Currency risk is managed by setting risk limits on the open currency position (long and short), limits and regular calculation of VaR currency position (1-day and 10-day), as well as compliance with the NBU's norms of the currency position. Interest rate risk in the banking book is managed by setting limits on financial instruments, controlling gaps for keeping the risk in compliance with the internal regulations, ensuring compliance with the NBU requirements.

Currency risk. Currency risk is a risk arising from adverse fluctuations in foreign currencies that affect assets, liabilities, and off-balance sheet items in the Bank's book.

The total open currency position represents the limits that correspond to the restrictions established by the NBU for open currency positions, and there is no short currency position for hard currencies. In case of a short foreign currency position (e.g., due to additional provisioning), it is subject to settlement within 10 business days. At the end of 2020, the Bank had no short currency positions for hard currencies, while a long currency position was at 2.13% of the Bank's regulatory capital against 9.5% set by the Risk Strategy.

Value at Risk (VaR) is an estimate of losses from currency risk expected over a given period of time, with a given probability, not to be exceeded.

To calculate VaR, the Bank assumes a confidence level of at least 99%, a depth of statistical sampling of 250 observations (for 1-day and 10-day VaR) for the previous period. The Bank's Risk Strategy for 2021-2022 set the following risk limits:

- 1-day VaR – up to USD 0.033 million;
- 10-day VaR – up to USD 0.098 million.

At the end of 2021, 1-day VaR in the Bank amounted to USD 0.0013 million, 10-day VaR – USD 0.0041 million, which is not in violation of the established risk limits.

Interest Rate Risk in the Banking Book. Interest rate risk in the banking book is the likelihood of losses or additional expenses, or shortfall in planned revenues as a result of adverse changes in interest rates affecting the banking book.

For the purpose of assessing and analyzing interest rate risk, the Bank analyzes the gaps between assets and liabilities in the banking book sensitive to changes in the interest rate and determines their potential impact on the financial result under different scenarios.

One of the tools for managing interest rate risk is IRR GAP. IRR GAP means a maturity gap between assets and liabilities, which, in case of market fluctuations in interest rates, can lead to potential losses. The Bank calculates such gaps separately in the national currency and foreign currencies. In case of open gaps, the Bank uses a scenario of the same rates for increase/decrease in interest rates, depending on the currency. According to the results of 2021, IRR GAP did not exceed the following established limits:

- IRR GAP in all currencies for a term up to 1 year inclusive – less than the equivalent of USD 0.4 million;
- IRR GAP in UAH for a term up to 1 year inclusive – less than the equivalent of USD 0.32 million;
- IRR GAP in foreign currency for a term up to 1 year inclusive – less than the equivalent of USD 0.08 million.

Liquidity Risk. A liquidity risk is defined as probability of losses or additional losses, or failure to receive the planned revenues as a result of the Bank's failure to keep financing the growth of assets and/or fulfillment of its obligations in due time.

The Bank manages its liquidity based on the following fundamental principles:

- Liquidity management is carried out on a daily basis and is a continuous process;
- During the authorization of each transaction that affects liquidity, liquidity risk should be taken into account. When placing assets in various financial instruments, the Bank should take into account the maturity of assets source and its volume;
- In case of variance between liquidity and profitability, the Bank decides in favor of liquidity.

To assess this risk, the Bank analyzes the compliance with the normative ratios for liquidity and mandatory provisions established by the National Bank of Ukraine; analyzes gaps according to agreements and forecasts that reflects the maturity gaps between the Bank's assets and liabilities; analyzes the concentration of the Bank's liabilities for each significant group, facility, and product; monitors the existing unencumbered high-quality liquid assets; analyzes liquidity risk of the Bank within the operating day; analyzes the compliance with and updating of action plans to support the Bank's liquidity in crisis situations.

The Bank's risk strategy for 2021-2022 marketing year sets the following targets for liquidity risk:

1) Level of liquidity security:

- Total in all currencies (warning level – the equivalent of USD -1.5 million) > USD -2.5 million;
- In national currency (warning level – UAH -35 million) > the equivalent of UAH 50 million;
- In foreign currency (warning level – the equivalent of USD -1.5 million) > USD -2.0 million.

Based on the results of 2021, the indicator of liquidity security in national currency was UAH -32.2 million, in foreign currency – USD -1.0 million, which did not violate the set limits and the warning level and allowed the Bank to meet its obligations to investors, creditors, and clients in full.

2) Cumulative Liquidity Gap reflects a temporary mismatch between the requirements and liabilities of the Bank (both on-balance sheet and off-balance sheet) according to contractual or expected maturity. The Bank has established the following restrictions:

- GAP in all currencies for a term up to 1 year inclusive – not less than the equivalent of USD 1.6 million;
- GAP in UAH for a term up to 1 year inclusive – not less than the equivalent of USD 1.4 million;
- GAP in foreign currency for a term up to 1 year inclusive – not less than the equivalent of USD 0.2 million.

According to the results of 2021, the Bank did not violate the established risk limits.

In order to mitigate and minimize the market and liquidity risks, the Bank ensures a proper balance between the maturity of assets placed and the sources of their financing, and maintains the portfolios of assets and liabilities of the Bank diversified in terms of maturity and rates.

In addition, the Bank takes into account the risks of cash flows - the probability of changing the value of future cash flows associated with financial instruments. Taking into account the restrained policy of the Bank on cash flow management, the use of detailed budgeting procedures and forecasting the movement of funds to make sure that a sufficient amount of cash is available to fulfill its obligations, the Bank's vulnerability to the risk of cash flows is quite limited and is under constant control.

Taking into account the possibility of borrowing funds by the Bank from financial institutions, in the future, the Bank will continue to improve market and liquidity risk management tools, specifically, in part of the internal models of liquidity management and the use of own statistics.

Operational Risk. The Bank defines the operational risk as a probability of losses or additional losses, or failure to receive the planned revenues as a result of defects or errors in the organization of internal processes, deliberate or unintended actions by the Bank's employees or other persons, failures in the Bank's information systems or due to external factors.

The Bank uses the following tools to identify and measure the operational risk:

- Analyze the results of audits carried out by Internal Audit Unit and the external auditor;
- Create and maintain the register of internal and external operational risk events and analyze that information;
- Coordinate the development of action plans based on the identified events. Maintain the register of action plans, monitor their implementation;
- Perform risk mapping (self-assessment).

The Bank's risk strategy for 2021-2022 marketing year sets the following targets for operational risk:

1. Operational risk appetite – 0.5% of net income of the Bank, but at least the equivalent of USD 34.5 thousand. According to the results of 2021, this indicator was not exceeded, the realized losses from operational risk amounted to the equivalent of USD 3.4 thousand;
2. Limit of materiality of operational risk events – the equivalent of USD 16 thousand. In 2021, there were no material operational risk events.

Mitigation and minimization of operational risk is achieved by way of:

- Organizing and ensuring for methodological maintenance of the system of mapping operational risks of the Bank;
- Organization, providing methodological support and maintenance of the register of mitigation plans;
- Participating as an expert in the analysis of processes (including introduction of new IT systems, products, projects, etc.) and internal regulatory documents of the Bank aimed at identifying the existence of operational risks and their level, if any; providing recommendations for their minimization; participating in working groups as operational risk experts;
- Performing quarterly stress testing of operational risk;
- Conducting regular trainings of the Bank's personnel on operational risk management.

Due to the possible political and economic instability and the increased probability of hacking attacks on infrastructure objects, the Bank plans to strengthen control over its operations and work of its branches, as well as review the internal processes in terms of information security.

Other Risks. A strategic risk is defined as the probability of losses or additional losses, or failure to receive the planned revenues as a result of incorrect managerial decisions and inadequate response to changes in the business environment.

The source of this risk is the inconsistency in:

- Long-term goals of the Bank;
- Business strategy, being an action plan to achieve the long-term goals;
- Resources attracted to implement the goals.

To manage strategic risk, the Bank uses the following tools for its mitigation:

- Development of a complex strategic planning process;
- Checking the adequacy of resources for the implementation of strategic plans;
- Causing the appropriate strategic goals and objectives to be exercised.

A reputational risk is defined as the probability of losses or additional losses, or failure to receive the planned revenues, as a result, of unfavourable perception of the Bank's image by clients, counterparties, shareholders, supervisory and controlling authorities.

To manage reputational risk and its mitigation, the Bank:

- Adheres to the principle of transparency, as a basic principle of its operations;
- Ensures effective functioning of the data inspection system as both its clients' reputation and candidates for positions in the Bank in order to prevent collaboration with counterparties/individuals with a bad reputation;
- Ensures effective functioning of the internal control system;
- Ensures high standards of client service.

Internal Control and Compliance System

In order to ensure the stability and safety of its activities and protect the interests of depositors and creditors, in the reporting year, the Bank has taken comprehensive measures to improve the existing internal control system. In particular, The Bank strictly complied with the requirements of Resolution of the National Bank of Ukraine No. 88 dated 2 July 2019 “On Approval of the Regulation on the Organization of Internal Control System in Banks of Ukraine and Banking Groups”. In the reporting period, the Bank’s internal control system took into account, among other things, the provisions of Directive 2013/36/EU of the European Parliament and the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Guidelines on internal governance by the European Banking Authority (EBA/GL/2017/11 dated 26 September 2017).

The Bank continued strengthening integration of the internal control system into the Bank’s corporate governance system by way of: further improving the relevant organizational structure; defining the internal documents of the authorities, subordination, accountability, description, and distribution of the functional responsibilities of the persons involved in functioning of the internal control system, their responsibilities and the order of interaction. This year, the Bank paid a significant attention to the development of the culture of control in the Bank and automated controls.

For the operation of the internal control system, the Bank provides the appropriate organizational structure, a sufficient number of relevant specialists, equipment, hardware, software, and other necessary facilities. The procedures for internal control over current activities are carried out on a daily basis, including their appropriate documentation.

Implementation of the Compliance Policy ensures that the Bank meets the requirements of laws, regulations, market standards, fair competition, corporate ethics, conflicts of interest, and internal documents.

Compliance in the Bank is performed in the following main areas:

- Control over observance of provisions of laws, internal documents, and relevant standards of professional associations, processing of personal data;
- Control over the Bank’s relationships with clients and counterparties in order to prevent engagement in and/or use of the Bank in illegal transactions;
- Development of the culture of corporate values, observance of corporate ethics, risk management culture;
- Coordination in compliance risk management and the internal control system;
- Counteracting fraud and internal corruption;
- Pursuing the social and environmental policy of the Bank;
- Management of conflicts of interest, processing clients’ claims;
- Other.

As a result of the complex implementation of the Compliance Policy, in the reporting year, the Bank was not subject to any penalties or other enforcement measures from the Regulator, there were no material events of the Bank’s loss of reputation. No cases of internal fraud or corruption have been recorded. The facts of violations by employees and management of the Code of Corporate Ethics of the Bank are not fixed.

V. OTHER MATTERS OF CORPORATE GOVERNANCE

Protection of Rights of Financial Services Consumers

In the reporting year, the Bank significantly improved the processes and procedures to ensure requirements to disclosures by banks of information on advertising services and on websites, as well as recommendations for organization of consumer claim considerations by banks.

We are talking about the full and comprehensive compliance with the requirements of the Law of Ukraine “On Introducing Amendments to Certain Legislative Acts of Ukraine on Protection of Rights of Consumers of Financial Services” No. 122-IX dated 20 September 2019, the requirements for disclosure of information by banks as approved by Resolution No. 141 of the Board of the National Bank of Ukraine dated 28 November 2019 “On Approval of the Regulations on Provision by Banks of Customers with Information about Banking and Other Financial Services”. The Bank continues to implement the requirements for working with customer appeals according to the Methodological Recommendations approved by Decision No. 889-рш of the Board of the National Bank of Ukraine dated 28 November 2019 “On Approval of Methodological Recommendations to Ensure Proper Consideration of Clients’ Claims and Their Personal Reception in Banks of Ukraine”.

The main goal of comprehensive implementation of the new requirements is to ensure complete, transparent, and comprehensible information on consumer services and quality review by banks of claims, as well as self-correction by banks of identified violations in consumer rights.

During the reporting year, the Bank received the minimum number of official complaints and customers claims. All claims were carefully considered by authorized persons, and measures were taken to maximize customer satisfaction and optimize the Bank’s operating processes.

The Bank’s website has improved opportunities for customers to submit complaints, reviews on the Bank’s activities, and feedback on other issues.

Lawsuits Regarding the Financial Services Provided

During 2021, the Bank acted as the defendant in 15 litigation procedures regarding the financial services provided. One individual initiated all litigation cases relating the following subject matters:

- Cancellation of the decision on early termination of the contract, the claim is not a real action;
- Recognition of illegal inaction, an obligation to commit actions;
- Recognition of actions as unlawful, obligations to perform actions and compensate for moral damage;
- Recovery of interest;
- Recovery of damages.

According to management, the outcome of these litigation procedures will not have a material effect on the financial position or results of operations.

Facts of Alienation of Assets in Excess of the Amount Specified in the Bank's Articles of Association

During 2021, the Bank did not perform any transactions on disposal or purchase/sale of assets in excess of the amount specified in its Charter of Association.

Transactions with Related Parties

In the course of its ordinary activities, the Bank provides loans and advances, attracts deposits, and may perform other transactions with related parties. Any parties are considered to be related when one party is able to control the other party or has a significant influence on the other party when making financial and operational decisions. When considering each case of the possibility of relations with related parties, the focus is made on the essence of the relationship, and not only on their legal form.

Terms of transactions with related parties are established in the course of transactions.

As at 31 December 2021, the Bank had no subsidiaries, associates, or joint ventures in which it was a member.

Related parties. The Bank determines the parties related to the Bank in accordance with the requirements of the current legislation of Ukraine, regulatory legal acts of the National Bank of Ukraine, and internal regulatory documents of the Bank. As at 31 December 2020, the related parties were represented by:

- The Parent: the actual controlling party of the Bank is Agro Holdings (Ukraine) Limited, Cyprus;
- Companies under common control;
- Key management personnel and their immediate relatives, members of the Supervisory Board, the Management Board, and their immediate relatives;
- Other related individuals.

As at 31 December 2021, no loans for prohibited purposes were issued to key management personnel or their immediate relatives.

The Bank is forbidden to grant loans to any person for repayment of any commitments before the Bank's related parties; acquisitions of related party assets, except for the products which are produced by this person; purchase of securities placed or signed with related parties; indirect lending to related parties. In order to prevent its own gain, the Bank's related parties are not entitled to participate in the decision-making process or to be present at the meetings considering the issues of lending to the same related party or his or her associated private individuals and/or legal entities.

More details on performing transactions with related parties are provided in Note 37 to the financial statements of the Bank for the year ended 31 December 2021.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JOINT STOCK COMPANY "AGROPROSPERIS BANK":

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 1, 2 and 38 to the financial statements, since 24 February 2022 the impact of the ongoing military actions in Ukraine, the magnitude of further developments, the timing of cessation of those actions and final resolution are unpredictable and adversely affect the operations of the Bank. These conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as going concern. Management's plans concerning these matters are also discussed in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Why the matter was determined to be a key audit matter

Allowances for expected credit losses on loans and advances to customers

The Bank assess allowance for expected credit losses (“ECL”) on loans and advances to customers using models and techniques as required by IFRS 9 Financial Instruments.

The models and techniques applied for ECL calculation use data from both external and internal sources, as well as complex and subjective judgments of the Bank’s management.

Key areas of judgments and estimates regarding the assessment of allowance for ECL on loans and advances to customers comprise:

- Assessment of a significant increase in credit risk and risk of default for determining the stage of impairment of loans and advances to customers;
- Measurement of expected credit losses taking into account macroeconomic forecasts and historical information on credit losses incurred for the loans and advances to customers assessed on a collective basis.

Calculation of allowance for ECL is inherently judgmental. We consider this issue as a key audit matter due to the complexity of methodology, subjective character of certain judgments used in models and a significant balance of loans and advances to customers as provided in Note 4, 8 and 31.

How the matter was addressed in the audit

We updated understanding of the Bank’s processes and control procedures for assessment of a significant increase in credit risk and risk of default and measurement of expected credit losses on loans and advances to customers.

With the assistance of internal credit risk and actuarial experts, we assessed the methodology, models, and techniques used by management of the Bank to define significant increase in credit risk and risk of default and to measure expected credit losses for compliance with IFRS 9 Financial Instruments.

Using all available information on criteria of the significant increase in credit risk and default criteria, including days past due (DPD), we analysed and assessed the correctness of the impairment stage determination.

We checked completeness and accuracy of historical data used in collective models and checked forward-looking inputs to external macroeconomic forecasts.

We checked completeness and accuracy of the relevant notes to the financial statements.

Other Information

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

Report on Other Legal Requirements

We have been appointed as auditor of the JOINT STOCK COMPANY "AGROPROSPERIS BANK" by those charged with governance represented by the Supervisory Board on 21 October 2021. In view of the previous renewals and reappointments, we conducted audit from 28 September 2018 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the Supervisory Board.

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

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

- In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, the management report (governance report) has been prepared in accordance with the requirements of the Article IV of the Instruction No. 373 and the information in the management report (corporate governance report) is consistent with the financial statements.
- We are required to report if we have identified material misstatements in the management report (corporate governance report) in light of our knowledge and understanding of the Bank obtained during our audit of the Bank's financial statements. We have nothing to report in this respect.

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

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

- As at 31 December 2021 the Bank was not a controlling party or participant of a non-banking financial group.
- The Bank is a public interest entity in accordance with the Law on accounting and financial reporting.
- As at 31 December 2021 the Bank had no subsidiaries.
- Prudential ratios, established by the NSSMC for relevant activity of professional participants in capital markets and organized commodity markets, are not applicable to banks that perform professional activities at stock markets in accordance with “Regulation on prudential ratios for professional activities at stock markets and risk management requirements” dated 1 October 2015.
- The creation of the Revision Commission is not stipulated by the Bank’s Charter, and, accordingly, the report on the results of revision of financial and economic activity for the 2021 financial year was not prepared by such commission.
- Limited Liability Company “Deloitte & Touche Ukrainian Services Company” (USREOU code 25642478, <https://www2.deloitte.com/ua/uk.html>) have audited the Bank’s financial statements according to the agreement No.Aud/2021/79997 dated 8 November 2021. The audit was conducted in the period from 8 November 2021 to the date of this report.

Basic Information about Audit Firm

Name: Limited Liability Company “Deloitte & Touche Ukrainian Services Company”.

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

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

LLC "Deloitte & Touche USC"

1 November 2022

Certified Auditor



Natalia Samoilova

Registration Number in the Register of Auditors and Auditing Entities 102404

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

JOINT STOCK COMPANY "AGROPROSPERIS BANK"

Statement of Financial Position

as at 31 December 2021

(in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2021	31 December 2020	1 January 2020
ASSETS				
Cash and cash equivalents	6	666,155	826,930	506,699
Loans and advances to banks	7	144,556	2,101	1,184
Loans and advances to customers	8, 37	1,174,376	712,505	559,499
Investments in securities	9	176,142	138,899	18,390
Intangible assets other than goodwill	10	7,234	5,234	2,529
Property, plant and equipment	11	17,792	14,905	13,246
Right-of-use assets	12	26,357	11,199	15,931
Current tax assets		329	329	329
Deferred tax assets	30	-	1,985	2,183
Other financial assets	13	43	15	354
Other non-financial assets	14	5,371	3,455	2,500
TOTAL ASSETS		2,218,355	1,717,557	1,122,844
LIABILITIES				
Due to other banks	15	237,789	80,000	90,154
Customer accounts	16, 37	1,187,561	905,612	457,509
Other borrowed funds	18	340,175	314,345	157,992
Provisions for loan commitments and financial guarantee contracts		62	105	-
Provisions for employee benefits		8,290	-	7,979
Deferred tax liabilities		444	-	-
Lease liabilities	19	26,824	10,685	15,591
Other financial liabilities	20	9,798	7,404	4,969
Other non-financial liabilities	21	2,226	2,278	1,309
Subordinated debt	17, 37	54,637	56,632	47,441
TOTAL LIABILITIES		1,867,806	1,377,061	782,944
EQUITY				
Issued capital	22	310,000	310,000	310,000
Retained earnings		30,698	20,675	21,345
Reserve and other funds of a bank		9,851	9,821	8,555
TOTAL EQUITY		350,549	340,496	339,900
TOTAL LIABILITIES AND EQUITY		2,218,355	1,717,557	1,122,844

The financial statements on pages from 6 to 32 were approved by the Management Board on 1 November 2022.

Serhii Shchepanskyi
Chairman of the Management Board



Tamara Ulianova,
Chief Accountant

The accompanying notes form an integral part of these financial statements.

JOINT STOCK COMPANY "AGROPROSPERIS BANK"

Statement of Comprehensive income, Profit or Loss for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

	Notes	2021	2020
Interest income	23, 37	200,501	169,454
Interest expense	24, 37	(85,015)	(87,760)
Net interest income (Net interest expense)		115,486	81,694
Commission income	25, 37	37,364	29,848
Commission expense		(1,831)	(1,651)
Net commission income (Net commission expense)		35,533	28,197
Net increase (decrease) from trading in foreign currencies		7,837	4,052
Net increase (decrease) from foreign exchange translation		(1,586)	3,933
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9		(2,669)	(4,020)
Employee benefits expense	27, 37	(86,414)	(67,604)
Depreciation and amortization expense	28	(19,071)	(18,326)
Other administrative and operational expenses	29, 37	(37,601)	(28,414)
Other gains (losses)	26, 37	967	1,282
Profit (loss) from operating activities		12,482	794
Tax income (expense)	30	(2,429)	(198)
Profit (loss)		10,053	596
Basic earnings (loss) per share to the equity holders of the bank	22	0.032	0.002

The financial statements on pages from 6 to 82 were approved by the Management Board on 1 November 2022.

Serhii Shchepanskyi,
Chairman of the Management Board

Tamara Ulianova,
Chief Accountant

The accompanying notes form an integral part of these financial statements.

JOINT STOCK COMPANY "AGROPROSPERIS BANK"

Statement of Cash Flows for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

	Notes	2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Commission income received		37,273	29,552
Net increase/(decrease) from operations with foreign currencies		7,833	4,052
Other cash receipts from operating activities		852	1,076
Commission expenses paid		(1,831)	(1,651)
Payments to and on behalf of employees		(75,080)	(75,424)
Administrative expenses and other paid operating expenses		(35,822)	(26,409)
Net cash flows from (used in) operations		(66,775)	(68,804)
Net (increase)/decrease in loans and receivables of banks		(143,480)	(640)
Net (increase) decrease in loans and receivables		(462,677)	(135,756)
Net (increase)/decrease in other assets		(1,775)	(446)
Net increase/(decrease) in due to other banks		-	(90,000)
Net increase/(decrease) in customer accounts		298,449	395,023
Net (increase)/decrease in other liabilities		(1,825)	2,988
Interest received		197,846	167,468
Interest paid		(79,099)	(82,777)
Net cash flows from (used in) operating activities		(259,336)	187,056
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchases of securities		(164,708)	(211,365)
Proceeds from sale and repayment of investments in securities		120,069	95,800
Purchases of property, plant and equipment		(11,152)	(9,139)
Proceeds from sales of property, plant and equipment		-	8
Purchases of intangible assets		(3,601)	(2,379)
Net cash flows from (used in) investing activities		(59,392)	(127,075)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Receipt of other debt from the National Bank of Ukraine	15	237,789	80,000
Receipt of other debt	18	151,976	233,255
Return of other debt from the National Bank of Ukraine	15	(80,000)	-
Return of other debt	18	(128,189)	(79,268)
Payments of lease liabilities	19	(8,803)	(9,691)
Net cash flows from (used in) financing activities		172,773	224,296
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes		(145,955)	284,277
Effect of exchange rate changes on cash and cash equivalents		(14,820)	35,954
Net increase (decrease) in cash and cash equivalents		(160,775)	320,231
Cash and cash equivalents at beginning of period	6	826,930	506,699
Cash and cash equivalents at end of period	6	666,155	826,930

The financial statements on pages from 6 to 82 were approved by the Management Board on 1 November 2022.

Serhii Shchepanskyi,
Chairman of the Management Board

Tamara Ulianova,
Chief Accountant

The accompanying notes form an integral part of these financial statements.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Statement of Changes in Equity for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

	Issued capital	Reserve and other funds of a bank	Retained earnings	Total equity
Balance as at 1 January 2020	310,000	8,555	21,345	339,900
Profit (loss)	-	-	596	596
Distribution of previous years' profit	-	1,266	(1,266)	-
Balance as at 31 December 2020	310,000	9,821	20,675	340,496
Profit (loss)	-	-	10,053	10,053
Distribution of previous years' profit	-	30	(30)	-
Balance as at 31 December 2021	310,000	9,851	30,698	350,549

The financial statements on pages from 6 to 82 were approved by the Management Board on 1 November 2022.


Serhii Shchepanskyi,
Chairman of the Management Board


Tamara Ulanova,
Chief Accountant

The accompanying notes form an integral part of these financial statements.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

1. General information

(a) **Principal activities.** JOINT STOCK COMPANY “AGROPROSPERIS BANK” (hereinafter, the “Bank”) was registered as Open Joint Stock Company “ASTRA BANK” in November 2007 in the respective legal form. In July 2010, the Bank was re-registered as a public joint stock company. In February 2016, the Bank’s name was re-registered as PUBLIC JOINT STOCK COMPANY “AGROPROSPERIS BANK”, and its registered address was changed. On 17 December 2018, the Bank’s name was re-registered as JOINT STOCK COMPANY “AGROPROSPERIS BANK”, without changing its registered address. On 28 November 2007, the Bank was entered into the State Register of Bank under Number 319. Due to the change in the Bank’s name and location, the National Bank of Ukraine (hereinafter, the “NBU”) replaced the Banking License by the new one under No. 241 on 16 February 2016 and the General License under No. 241-3 on 17 February 2016. The principal activities of the Bank include maintaining customer accounts, granting loans agricultural entities and farms, conducting cash and settlement operations and operations with the instruments issued by the NBU, and currency sale/purchase transactions. The Bank’s activities are regulated by the NBU. The Bank is a member of the Individual Deposit Guarantee Fund of Ukraine.

The Bank is owned by Agro Holdings (Ukraine) Limited (hereinafter, the “Parent”), an indirect subsidiary of NCH Agribusiness Partners II Fund. Information on the ultimate controlling party is presented in Note 37.

As at 31 December 2021, the Bank conducted its business through the Head Office and 4 branches in the city of Kyiv and 1 branch in the city of Vinnytsia (31 December 2020: Head office and 3 branches in the city of Kyiv).

The Bank’s registered address is at: blvd. Vaclava Havela, 6, building 3, Kyiv, Ukraine.

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

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

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

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

1. General information (continued)

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

On 4 October 2022, president of the Russian Federation signed laws on annexation of part of Luhanska, Donetsk, Zaporizhskya and Khersonska regions, that has been previously ratified by the Parliament.

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

With the start of the invasion, the NBU has introduced some temporary protective measures as restriction of cross-border payments in foreign currency, fixing the official exchange rate for major currencies (on 21 July 2022 the NBU has changed the official exchange rate of the hryvnia against U.S. dollar by 25%, to UAH/USD 36.5686). In addition, since the start of the war the NBU decided that the discount rate would stay unchanged at 10%, since the forced administrative restrictions were in place. However, in June 2022 it decided to increase the rate up to 25%. The NBU stated it would revert to the traditional format of inflation targeting with a floating exchange rate after the economy and financial system return to their normal operational mode. The Ukrainian government continued to service external debt obligations, and the banking system remains operational.

The Ukrainian government received financing and donations from international organizations, along with individual countries, and charities to support financial stability, social related payments, and military needs. On 9 March 2022, the International Monetary Fund (the “IMF”) approved an additional financing for Ukraine under an emergency support program known as the Rapid Financing Instrument (“RFI”) in the amount of USD 1.4 billion. During March-August 2022, the European Bank for Reconstruction and Development (the “EBRD”) and the World Bank approved additional support of USD 6.5 billion. During March-September, the European Union provided Ukraine with the financial support of EUR 2.7 billion. In March-August 2022, the US Senate approved a financial support for the USD 16.6 billion directed for military and humanitarian aid to Ukraine. In May 2022, the US Senate approved lend-lease for Ukraine and additional package of the military and economic support for USD 40 billion. On 29 September 2022, the upper house of the US Congress passed by a majority of votes the draft law on short-term state financing, which provides, among other things, assistance for Ukraine in the fields of security and economy in the total amount of USD 12 billion.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

1. General information (continued)

In addition, starting March 2022, the Ministry of Finance hold auctions for the placement of military domestic government debt securities, which allowed to raise more than UAH 100 billion as at the end of June 2022.

During 2022 the government introduced a zero quota on exports of gold and silver (except for bank metals), buckwheat, table salt, briquettes, coal and fuel oil. Exports of chicken meat, cattle, cattle meat, eggs, mineral fertilizers, rye, oats, millet, and sugar are subject to licensing. Exports of gas are prohibited.

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

On 23 June 2022, the European Union at the Brussels summit approved a decision to grant Ukraine the candidate status to join the European Union. Ukraine will become a participant of some European Union programs and initiatives open to candidates.

On 22 July 2022, in Istanbul, representatives of Ukraine signed an agreement with Turkey and the United Nations on the unblocking of ports and the resumption of grain exports, which are blocked in Black Sea ports due to the war. The Russian Federation also signed a “mirror agreement” with representatives of Turkey and the United Nations. As of the beginning of October, 5 million tons of agricultural produce were shipped from the seaports of Odesa region.

On 27 September 2022, the Cabinet of Ministers approved resolutions that will allow Ukraine to join the Common Transit Convention and Convention on the Simplification of Formalities in Trade in Goods (the so-called “customs free regime”) from 1 October 2022. The resolutions open access to an unlimited range of Ukrainian businesses to authorizations and simplifications of joint transit procedures similar to those available to economic operators in the 35 member states of the Convention.

The war between Ukraine and the Russian Federation is ongoing, resulting in a significant destruction of property and assets in Ukraine and a significant displacement of people in Ukraine. The consequences of the war are changing day to day and the long-term implications are unclear. Further impact on the Ukrainian economy depends upon the way the Russian Federation military invasion in Ukraine is resolved and upon the success of the Ukrainian government in realization of new reforms, recovery strategy after the invasion is stopped and the transformation of the state to acquire European Union membership, cooperation with the international funds.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

2. Basis of preparation

- (a) **Statement of compliance.** These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the Law of Ukraine “On accounting and financial reporting in Ukraine” (“Law on accounting and financial reporting”).
- (b) **Going concern basis.** These financial statements have been prepared on a going concern basis. However, on 24 February 2022, the Russian Federation began an armed aggression against Ukraine. On the same day, the Decree of the President of Ukraine introduced the martial law in the entire territory of Ukraine. Effective from the date of its imposition and to the date these financial statements were authorized for issue, the military actions in the territory of Ukraine have caused and continue to cause significant adverse impact both to the economy of Ukraine in general and customers of the Bank in particular, which are described in details in Note 1 (b) and 38.

These events and conditions that a material uncertainty exists that may cast significant doubt on the Bank’s ability to continue as a going concern. Management believes that preparation of the financial statements on a going concern basis is appropriate due to the following factors and actions taken in response to these matters:

- As a basis, the conservative scenario of the Bank’s development has been elected for the period by late 2023.
- The Bank has assessed the amounts of potential deterioration of the financial position of its customers, a potential rate of defaults, and, as a result, probable changes in the allowances for expected credit losses.
- The Bank’s management has estimated that the effect of key drivers of uncertainty will not lead to violation of regulatory requirements of the NBU, including in respect of capital adequacy. Considering a negative forecast regarding the Bank’s performance as at 31 December 2022, the Bank is going to comply with the regulatory indicators of capital adequacy.
- The Bank has received from its single shareholder, which is a member of the group of investment funds managed by NCH Capital Inc. (USA), holding the investment portfolio of over USD 3 billion, a letter of support that guarantees the support to the Bank in the event of force-majeure and unforeseen adverse consequences in the period of the martial law.

In particular, the Bank has taken the following actions:

- Taking into account risks of a potential escalation of the military situation, the Bank has moved its data center to a private cloud built on the equipment of the Parent and located in the Republic of Cyprus. The private cloud is used as the main server. Physical equipment of the IT infrastructure is located on two sites in Kyiv and Vinnytsia. During the period from 24 February to date, there have been no cases of inability to ensure the continuous operations of the Bank’s IT systems.
- Management believes that the Bank’s team is its main asset, therefore, during the war in the territory of Ukraine, all employees of the Bank continued to consistently perform their employment obligations, not a single member of the Bank’s employee team has been dismissed or transferred to positions with lower salaries. The Bank has succeeded to successfully employ the experience and procedures developed for the purposes of continuous operations in the course of COVID-19 pandemic.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

2. Basis of preparation (continued)

- The Bank continues its operations and renders services to customers both online and in the Bank’s outlets. During the period from March 2022, the Bank has adjusted most of its business and internal processes to the working conditions during the martial law. The Bank has an insignificant network of outlets in the city of Kyiv and one outlet in the city of Vinnytsia that continue performing their functions in full.
- To date, AGROPROSPERIS BANK provides financing to agrarians in 15 regions of Ukraine, i.e. Vinnytska, Khmelnytska, Poltavska, Kharkivska, Sumska, Chernihivska, Kyivska, Zhytomyrska, Cherkaska, Kirovohradska, Ternopilska, Lvivska, Rivnenska, Ivano-Frankivska and Volynska regions. The Bank has not changed the geographical concentration of its loan portfolio since 24 February, however, it continues undertaking efforts to decrease the loan debts for the period of the martial law, in the zones of hostilities or close to them. For the period from the beginning of the martial law to 2 August 2022, the Bank implemented credit holidays for legal entities on all loan programs. As at 31 December 2021, the Bank had no debts on the loans granted to individuals. The Bank is in compliance with the regulatory requirements of the NBU and has adequate capital to fulfill its major function – provide lending to the agricultural industry of Ukraine. The analysis held has demonstrated that, under the available conservative scenario, the Bank is able to increase its loan portfolio, in compliance with the adequacy ratios and regulatory capital adequacy. During the period from the martial law imposition, the Bank has stayed fully compliant with the obligatory ratios established by the National Bank of Ukraine.
- The Bank traditionally maintains its liquidity at a high level. The liquidity coverage ratio (LCR_{BB}) and the net stable funding ratio (NSFR_{BB}) significantly exceed the regulatory requirements. The Bank is able to make settlements on all customer accounts without a risk to lose liquidity.

Since the estimates have been based on the events that differ by scale and impact on the Bank’s operations and the country taken as a whole in the past, the actual results in the future may differ from the estimates arrived at by the Bank.

The Bank has also analyzed a potential impact of the military aggression against Ukraine on its financial position and financial performance in the future. As at 31 December 2021, the Bank’s loan portfolio (UAH equivalent) amounted to UAH 1 174 376 thousand. According to the Bank’s plans, its portfolio is going to decrease in 2022 against the crisis situation in Ukraine and, subsequently, grow in the event the acute phase of military actions in the territory of Ukraine ends according to projections, at the cost of the extended resource base, diversified loan portfolio, and increased number of the personnel engaged in active operations of the Bank. Considering a significant increase in the discount rate of the NBU to 25% p.a. and a gradual increase in interest rates on deposits of domestic banks (which reflect the UIRD index), the net interest margin is projected to increase.

Considering the available information about the gradual arrangement of sea routes for exports of grains, as well as river and road routes, and investments in the construction of infrastructure facilities for exports of grains on western borders of Ukraine, the operations of customers are projected to restore to the pre-war level and, as a consequence, the Bank’s commission income to increase during the period from 2023 to 2025.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

2. Basis of preparation (continued)

The Bank’s management believes that, irrespective of such a material uncertainty, forecasts and estimates of the Bank regarding the fulfillment of regulatory requirements, performance, and allowances for impairment of assets provide sufficient reasons to prepare these financial statements on a going concern basis. However, due to the currently unpredictable effects of the ongoing war on the significant assumptions underlying management forecasts, management has concluded that a material uncertainty exists, which may cast a significant doubt about the Bank’s ability to continue as a going concern. The Bank’s management is going to revise the key principles of applying the going concern basis immediately after the martial law is terminated in Ukraine.

(c) **Basis of measurement.** These financial statements have been prepared on the historical cost basis.

(d) **Functional and presentation currency.** The functional currency of the Bank is Ukrainian hryvnia (UAH).

The financial statements are presented in UAH rounded to the nearest thousand, unless otherwise indicated. The NBU’s official exchange rates of UAH against major currencies used in preparing these financial statements were as follows:

Currency	31 December 2021	31 December 2020
USD	27.2782	28.2746
EUR	30.9226	34.7396

(e) **Critical accounting judgments and key sources of estimation uncertainty.** The preparation of the financial statements in conformity with IFRS requires that management make a range of judgments, estimates, and assumptions that have an impact on the presentation of reported assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations (which are dealt with separately below), that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- **Evaluation groups of assets with similar credit risk characteristics:** When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECLs changes because the credit risk of the portfolios differ.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued) for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

- Models and assumptions used: The Bank uses models and assumptions in measuring fair value of financial assets as well as in estimating allowance for ECLs. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Notes 4 and 31 and 35 for more details on ECLs and fair value measurement.
- Significant increase in credit risk: allowance for ECLs are measured as an allowance equal to 12-month ECLs for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Notes 4 and 31 for more details.

The following are key estimations that management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- Probability of default (PD): PD constitutes a key input in measuring allowance for ECLs. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default (LGD): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments.
- Measurement of impairment losses for a right-of-use asset: If the recoverable amount of a right-of-use asset is less than its carrying amount, the Bank, as a lessee, reduces the carrying amount of the right-of-use asset to its recoverable amount and recognizes an impairment loss in profit or loss.
- Interest rate on subordinated debt: In estimating the interest rate on subordinated debt, the Bank uses market-observable data and valuation techniques to determine the fair market-based interest rate of its financial instrument.
- Lease period and the factor for discounting right-of-use assets and lease liabilities: The estimation of the lease period commonly involves material judgments on behalf of the Bank as to the ability to extend the lease, its potential cancellation by a lessee or a lessor, possible termination charges and other regulatory restrictions regarding the lease extension. The discount factor (or a lessee's incremental borrowing rate) is calculated on the basis of material judgments, since it is estimated as the interest rate that the lessee would agree to pay in order to borrow the funds for a similar period and by using similar collateral that are required to obtain the asset of the value similar to the right-of-use asset under similar economic conditions.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

3. Adoption of new and revised Standards and Interpretations

(a) **New and revised Standards that are effective for the current year.** The following amendments and interpretations are effective from 1 January 2021:

Amendments to IFRS 16 “Leases” – COVID-19-Related Rent Concessions Amendment;
Amendments to IFRS 9, IFRS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform (IBOR) – Phase II

Amendments to IFRS 16 “Leases”. In view of the general scale of the pandemic and the measures taken in many countries to ensure social distancing, it has been suggested that a large number of lessees may receive concessions in one form or another, so this will require lessees to apply amendments to IFRS 16 proposed by the IFRS Board. No updates in the requirements for accounting of lease transactions by lessors are provided.

The amendments permit lessees, as a practical expedient, not to assess whether particular COVID-19-related rent concessions are lease modifications.

The practical expedient applies only to rent concessions occurring as a direct consequence of the coronavirus pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (in March 2021, further amendments to IFRS 16 were published, which granted one-year extension of this term to 30 June 2022);
- There are no substantive changes to other terms and conditions of the lease.

A lessee that applies the practical expedient shall disclose that in its financial statements.

A lessee shall apply a practical expedient retrospectively, recognizing the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment. In the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

The Taxonomy also requires disclosing, in particular:

- By a lessee that it has applied the practical expedient according to paragraph 46A of IFRS 16 to all rent concessions occurring as a direct consequence of the COVID-19 pandemic that meet the conditions in paragraph 46B of IFRS 16;
- About the nature of the contracts to which the lessor has applied the practical expedient according to paragraph 46A of IFRS 16, if it has not applied the practical expedient to all rent concessions occurring as a direct consequence of the COVID-19 pandemic;

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3. Adoption of new or revised standards and interpretations (continued)

- The amount recognized in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions occurring as a direct consequence of the COVID-19 pandemic, to which the lessee has applied the practical expedient according to paragraph 46A of IFRS 16.

In the current financial year, the Bank has not applied the amendment to IFRS 16 “COVID-19-Related Rent Concessions” as there have not been any of such rent concessions.

The Bank’s management has reviewed the above standards and interpretations and concluded that they have not had a material impact on the financial statements of the Bank.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (IBOR), Phase 2. Phase 1 of the Reform (2020) addressed issues affecting financial reporting in the period before the replacement of effective interest rate benchmarks with Risk Free Rates (hereinafter – RFRs).

Phase 2 addresses as a priority issues arising during the replacement of effective interest rate benchmarks with RFRs. This Phase continued in 2021. As a result of Phase 2, IBORs shall be replaced with RFRs in financial instruments before 31 December 2021. IBORs will cease to be published in 2022. Until mid-2023, there will be published only USD LIBOR settings (the overnight and the one-, three-, six- and 12-month settings) before most of contracts tied to them expire.

The following amendments to IFRS related to the Reform are relevant for 2021:

Amendments to IFRS 9 “Financial Instruments” and IAS 39 “Financial Instruments: Recognition and Measurement” – these standards are significantly supplemented with provisions related to the interest rate benchmark reform, especially in part of hedging.

IFRS 9 is supplemented with paragraphs 5.4.5 to 5.4.9 providing for a change in the basis for determining the contractual cash flows as a result of the interest rate benchmark reform, as well as for a practical expedient as a simplification. Replacement of IBORs with RFRs in existing financial instruments is considered to be a change in the variable interest rate therefore paragraph B5.4.5. on re-estimation of cash flows shall be applied.

In addition, it provides for the relief from discontinuing hedging relations. Instead, it allows to introduce appropriate changes, according to the IBOR reform, in designating hedged items and hedge documentation under IFRS 9 and IAS 39 without termination of hedging relations.

IFRS 16 “Leases”. This Standard is supplemented with paragraphs 104 to 106 providing for a practical expedient as a simplification following the interest rate benchmark reform. A lessee, when replacing IBORs with RFRs in existing contracts, shall recognize such changes as a modification to the contract pursuant to paragraph 42(b) of the Standard. Lease liabilities shall be re-measured, while the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification). All other modifications not related to the interest rate benchmark reform shall be measured pursuant to IFRS 16 as applicable.

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Notes to the Financial Statements (continued)
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3. Adoption of new or revised standards and interpretations (continued)

IFRS 7 Financial Instruments: Disclosures. This Standard is supplemented with the following additional disclosure requirements:

- How a company is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments as a result of the IBOR reform.
- Quantitative information about financial instruments that have yet no transition to RFR, by significant interest rate benchmark.

If the IBOR reform resulted in any changes to the company’s risk management strategy, a description of such changes shall be disclosed.

IFRS 4 “Insurance Contracts”. This Standard is supplemented with paragraphs 20R to 20S providing for a change in the basis for determining the contractual cash flows as a result of the interest rate benchmark reform, for insurers applying the temporary exemption from IFRS 9.

The Bank’s management has reviewed the above standards and interpretations and concluded that they have not had a material impact on the financial statements of the Bank.

- b) **New or revised standards that have been issued but are not yet effective.** As of the date of approval of these financial statements, the Bank has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

Amendments to IFRS 3 “Business Combinations” – Definition of a Business	1 January 2022
Amendments to IAS 16 “Property, Plant and Equipment” – Proceeds before Intended Use of Property, Plant and Equipment	1 January 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture”, and Illustrative Examples to IFRS 16 “Leases” – Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-Current	1 January 2023
IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IAS 1 “Presentation of Financial Statements”, to IFRS Practice Statement 2: Making Materiality Judgements – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”	1 January 2023
Amendments to IAS 12 “Income Taxes” – Deferred Taxes related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Distribution of Assets between an Investor and its Associate or Joint Venture	No date set

IFRS 3 “Business Combinations”. IFRS 3 outlines how an entity shall account any assets acquired and liabilities assumed as a result of business combination. IFRS 3 requires an entity to refer to the Conceptual Framework for Financial Reporting to determine what is recognized as an asset or liability.

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3. Adoption of new or revised standards and interpretations (continued)

According to the current version, in order to apply IFRS 3 instead of the Conceptual Framework 2018, acquirers shall refer to the definitions of assets and liabilities and the relevant guidelines set out in the Concept adopted by the IFRS Board in 2001.

Beginning on and after 1 January 2022, the reference has been updated according to which acquirers shall refer to the Conceptual Framework 2018 to define what is an asset or liability.

Also, beginning on and after 1 January 2022, an exception has been introduced, according to which for certain types of liabilities and contingent liabilities of entities that apply IFRS 3, instead of the Conceptual Framework, the reference shall be made to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. The IFRS Board expects that this exception will remain in IFRS 3 as long as the definition of a liability in IAS 37 differs from the definition stated in the latest version of the Conceptual Framework. The Board plans to consider aligning the definitions as part of a project to make targeted improvements to IAS 37.

The Bank’s management does not anticipate that the adoption of this Standard will affect financial statements of the Bank in future periods, as the Bank does not have instruments to fall within the scope of this Standard.

IAS 16 “Property, Plant and Equipment”. According to the current version of clause 17 of IAS 16, initial costs include costs of testing an asset, after deducting the net proceeds from selling any items produced while delivering and testing the asset. For instance, the cost of testing equipment is included in the initial cost less profit from the sale of samples obtained during the testing process.

Beginning on and after 1 January 2022, an entity is prohibited to deduct from the cost of property, plant and equipment the proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity shall recognize such sales proceeds and related costs in profit or loss.

Supplements to IAS 16 relate to the accounting and disclosure of proceeds from property, plant and equipment before their intended use.

In particular, the amendments supplement IAS 16 with a new paragraph 20A in the section “Elements of Costs”:

“20A Items may be produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as inventories produced when testing an asset. A company recognizes the proceeds from selling any such items, and initial costs of producing those items, in profit or loss according to applicable Standards. The entity measures the initial cost of these items pursuant to the measurement requirements set out in IAS 2.”

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Notes to the Financial Statements (continued)
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3. Adoption of new or revised standards and interpretations (continued)

In addition, a new disclosure clause stipulates:

“74A If not presented separately in the statement of comprehensive income, the financial statements shall also disclose:

- (a) The amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss; and
- (b) The amounts of proceeds and costs included in profit or loss according to paragraph 20A that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and costs.”

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Currently, paragraph 68 of IAS 37 does not specify which costs shall be included when determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

On 1 January 2022, paragraph 68 of IAS 37 was amended to establish that the costs of fulfilling a contract comprises the costs that relate directly to the contract and consist of both:

- (a) The incremental costs of fulfilling that contract – for example, direct labour and materials; and
- (b) An allocation of other costs that relate directly to fulfilling contracts – for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

The amendments further state that before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, and not on assets dedicated to that.

The adoption of these amendments may result in recognition of more and bigger provisions for onerous contracts, as previously some entities only included incremental costs in costs of fulfilling a contract.

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

Annual Improvements to IFRS Standards 2018-2020:

IFRS 1 “First-time Adoption of International Financial Reporting Standards”. Paragraph D16(a) of IFRS 1 provides a subsidiary as a first-time adopter of IFRS Standards later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption under paragraph D16 (a) of IFRS 1 does not apply to components of equity. Accordingly, prior to the amendment to IFRS 1, a subsidiary as a first-time adopter of IFRS Standards later than its parent could have been required to maintain two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. The amendments to IFRS 1 extend the exemption provided for in paragraph D16 (a) of IFRS 1 to cumulative translation differences to reduce costs for first-time adopters.

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Notes to the Financial Statements (continued)
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3. Adoption of new or revised standards and interpretations (continued)

IFRS 9 “Financial Instruments”. The amendments clarify which fees an entity includes in the 10 per cent test referred to in paragraph B3.3.6 of IFRS 9 to assess whether to derecognize a financial liability.

Accordingly, beginning on and after 1 January 2022, when determining the amount of fees paid less fees received, a borrower accounts only fees paid or received between this borrower and a respective lender, including fees paid or received by the borrower or lender on the other’s behalf.

IAS 41 “Agriculture”. Currently, paragraph 22 of IAS 41 states that to determine the fair value using a discounting cash flow technique, entities shall exclude cash flows from taxation.

Beginning on and after 1 January 2022, the requirement to exclude tax cash flows when determining the fair value as set out in paragraph 22 of IAS 41 has been repealed. These amendments bring the requirements of IAS 41 to measure fair value in line with the requirements of other IFRS standards.

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

IAS 1 “Presentation of Financial Statements”. Amendments to IAS 1 “Presentation of Financial Statements” relate to the classification of current and non-current liabilities, in particular:

- It is clarified that a liability is classified as non-current only if an entity has a right to defer settlement of the liability for at least 12 months, and such a right shall be in existence at the end of the reporting period;
- The classification is based only on the right in existence and is unaffected by expectations about whether an entity will exercise its right;
- The procedure for assessing specified conditions (covenants) is described in more detail.

A new clause item in the section “Current Liabilities” is stated as follows:

“72A The right of an entity to defer settlement of a liability for at least twelve months after the end of the reporting period shall be effective and exist at the end of the reporting date. If the entity’s right to defer settlement of a liability is subject to compliance with specific conditions, such a right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period. The entity shall comply with these conditions as of the end of the reporting period, even though a lender verifies the compliance after that date.”

A liability was classified as current subject to the contractual terms of its fulfillment.

It is noteworthy that the amendments propose to classify liabilities as non-current by “extending” the term based on the right to perform it at least one year after the reporting date.

As a result of applying the amendments to IAS 1, some current liabilities may be reclassified as non-current liabilities.

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Notes to the Financial Statements (continued)
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3. Adoption of new or revised standards and interpretations (continued)

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

IFRS 17 “Insurance Contracts”. IFRS 17 supersedes an Interim Standard – IFRS 4, requires consistent accounting for all insurance contracts based on the current measurement model, and provides useful information on profitability of insurance contracts.

IFRS 17 applies to insurance contracts (including reinsurance contracts) issued by an entity, reinsurance contracts held by an entity, investment contracts with discretionary participation features issued, provided that the entity also issues insurance contracts.

New provisions of IFRS 17 include:

- Classification of insurance and investment contracts;
- Mandatory separation of non-insurance components;
- Measuring profitability of insurance contracts at initial recognition (for example, whether insurance contracts are onerous);
- Requirements for aggregation of contracts: by level of risk, profitability, date of issue and other requirements of the Standard;
- Expanded requirements to disclosure in the financial statements in the balance sheet and the statement of comprehensive income;
- Actuarial calculations through various methods used to measure liabilities.

IFRS 17 is applied retrospectively.

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The amendments to IAS 8 clarify the difference between changes in accounting policies and accounting estimates, and define accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty.

The Amendments emphasizes, in particular, that:

- A change in accounting estimate that results from new information or new developments is not the correction of an error;
- The effects of a change in an input or a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors;
- A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods.

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Notes to the Financial Statements (continued)
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3. Adoption of new or revised standards and interpretations (continued)

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

IAS 12 “Income Taxes”. Deferred tax liability is recognized for all taxable temporary differences, unless such differences arise from:

- Initial recognition of goodwill or
- The initial recognition of an asset/liability in a transaction that:
 - Is not a business combination;
 - At the time of the transaction, does not affect either the accounting or the taxable profit (tax loss);
 - At the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- Is not a business combination;
- At the time of the transaction, does not affect either the accounting or the taxable profit (tax loss);
- At the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

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

- A deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, and a deferred tax liability for all taxable and deductible temporary differences associated with:
 - Right-of-use and lease assets; and
 - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the costs of the related asset; and
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The Bank’s management does not anticipate that the adoption of these amendments may affect the financial statements of the Bank in future periods.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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4. Summary of significant accounting policies

(a) **Foreign currency transactions.** Foreign currency transactions are recorded, on initial recognition, in the functional currency by applying to the foreign currency amounts at the spot exchange rates between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date;
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was measured; and
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency translation differences are recognized in profit or loss.

(b) **Cash and cash equivalents.** Cash and cash equivalents include banknotes and coins on hand, unrestricted balances with the NBU, deposit certificates issued by the NBU, correspondent accounts and deposits due from banks, with original maturities of less than three months, unless they are exposed to a significant fair value changes risk. Cash and cash equivalents are recognized in the statement of financial position at amortized cost.

(c) Financial assets and liabilities

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

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

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

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Notes to the Financial Statements (continued)
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4. Summary of significant accounting policies (continued)

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

Amortized cost. The amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognized immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognized over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account upon determination of the price.

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

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

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

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Notes to the Financial Statements (continued)
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4. Summary of significant accounting policies (continued)

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

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

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

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on re-measurement recognized in profit or loss.

Reclassifications. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in the business model that results in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and de-recognition of financial assets described below.

Impairment. The Bank recognizes loss allowances for ECLs on the financial instruments that are not measured at FVTPL. No loss allowances are recognized on equity investments.

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Notes to the Financial Statements (continued)
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4. Summary of significant accounting policies (continued)

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECLs, i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1); or
- Full lifetime ECLs, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

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

The Bank measures ECLs on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank; or

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4. Summary of significant accounting policies (continued)

- The borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

The Bank monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECLs.

Modification and de-recognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g., a change to the increase in the interest rate that arises when covenants are breached).

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

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants;
- If these do not clearly indicate a substantial modification, then a quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

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

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in de-recognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECLs. The loss allowance on forbore loans will generally only be measured based on 12-month ECLs when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

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

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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

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

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Financial liabilities. The Bank classifies financial liabilities as estimated at the amortized cost, with the exception:

- Financial liabilities at FVTPL, which are applied to trade of derivative financial instrument;
- Financial liabilities which arise when movement of a financial assets does not bring to recognition or when approach is applied on the basis of use continuation. The Bank has to continue recognition of the transferred asset in full and to recognize the financial liabilities in the amount of the received compensation. In the further periods, the Bank has to recognize any income from the transferred asset and any expenses incurred from the financial obligation. If the Bank continues to recognize an asset at a rate of the participation which continues, the Bank also recognizes the related liability. Despite other requirements to assessment according to IFRS 9, the transferred asset and the related liability are estimated on a basis which reflects the rights and obligations kept by the Bank. The connected liability is estimated at such a way that the net book value of the transferred asset and the related liability:
 - a) Is the amortized value of the rights and the obligations kept by the Bank if the transferred asset is estimated at amortized cost;
 - b) Equals fair value of the rights and obligations kept by the Bank if they are estimated on a separate basis and if the transferred asset is estimated at fair value.
- Contracts of a financial guarantee and obligations for loan issuance with lower interest rate than the market rate. If provisions of abovementioned points are applied, after initial recognition, the issuer of such a contract has to estimate it further by using a higher of two amounts:
 - a) The amount of the expected credit loss according to the requirements of impairment model under IFRS 9;
 - b) Originally recognized amount, less, when applicable, the accumulated revenue recognized under IFRS 15.
- Contingent compensation recognized by the buyer in a business combination within the scope of IFRS 3 “Business Combinations”. Such a contingent compensation has to be estimated subsequently at fair value, with any gains/losses arising from revaluation included in profit or loss;
- Financial liabilities which are irrevocably recognized at fair value through profit or loss at the initial recognition because it removes or significantly reduces mismatches in assessment or recognition.

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

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such an exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

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

(d) Derivative financial assets and liabilities. In the normal course of business, the Bank enters into various derivative financial instruments, including swaps in the currency market. These derivative financial instruments are recognized at fair value through profit or loss. The fair value is determined on the basis of market quotations or valuation models that consider the current market and contractual values of relevant assets and other factors. The derivatives with positive fair value are included in assets, and those with negative value are recorded as liabilities. Gains and losses on transactions with these instruments are recorded in the statement of comprehensive income, profit or loss.

(e) Property, plant and equipment

(i) Owned assets. Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

Expenses related to property, plant and equipment repairs and renewals are charged when incurred and recognized in profit or loss unless they qualify for capitalization.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains less losses from the sale of property, plant and equipment are recognized in profit or loss.

(ii) Right-of-use assets and lease liabilities. The Bank defines a lease contract as a lease if the following criteria are met:

- The asset is identified;
- The lessee is entitled to receive virtually all economic benefits from using the identified asset throughout the period of the use of the asset;
- The lessee is entitled to determine how the asset is used throughout the period of the use in exchange for compensation;
- The lessor does not have a significant right to exchange the asset during its use.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Initial recognition of the right-of-use asset is carried out at initial cost (cost), which includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, initial direct costs incurred by the lessee, costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The Bank, as a lessee, discounts lease payments for the right to use of the underlying asset during the lease term by applying the interest rate based on the incremental borrowing rate.

Lease payments at the commencement date include:

- Fixed payments (including, per se, contractual fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on indices or rates initially measured by using such indices or rates at the commencement date;
- Amounts expected to be paid on residual value guarantees;
- Exercise price of purchase probability if the lessee is reasonably certain that it will get use of such a possibility;
- Payment of cancellation penalty fees, except for the cases when the lessee is reasonably certain that the lease will not be early terminated.

At least on a monthly basis, the Bank records in accounting the depreciation of the right-of-use asset accrued by using the straight-line basis.

After the commencement date, the lease liability is measured as follows:

- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect the lease payments made; and
- Re-measuring the carrying amount to reflect any reassessment, lease modifications or to reflect revised fixed lease payments.

The Bank records in accounting a revaluation of the lease liability as an adjustment to the right-of-use asset (except to the extent that it decreases to nil if the carrying amount of the right-of-use asset has decreased to nil and the lease liability is further impaired).

The Bank re-measures the lease liability using a fixed discount rate in the following cases:

- Change in the amounts expected to be paid under the liquidation guarantee;

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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4. Summary of significant accounting policies (continued)

- Change in the future lease payments due to changes in the index or rate used to measure such payments;
- Changes in foreign exchange rates used to determine the lease payments under which the lease value is set in foreign currency.

The Bank measures the revised lease payments for the rest of the lease term by applying an interest rate at the commencement date.

After the commencement date, the Bank recognizes as other operating expense the variable lease payments not included in the measurement of lease liabilities in the period in which the event or certain conditions that led to such payments (and those that are independent of the index and rates)

The Bank does not recognize a lease at which the value of the underlying asset is low unless the value of the underlying asset exceeds the equivalent of EUR 5,000.

(iii) Depreciation. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives of the assets are as follows:

Furniture and fixtures	7 years
Computers and office equipment	5 years
Vehicles	5 years

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

(f) Intangible assets other than goodwill. Intangible assets that are acquired by the Bank are stated at cost, less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of the intangible assets are 3 to 10 years.

(g) Impairment of non-financial assets. Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value, less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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4. Summary of significant accounting policies (continued)

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(h) Issued capital

- (i) **Ordinary shares.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.
- (ii) **Purchase of own shares.** In case of purchase of own shares, the amount of the consideration paid, including additional expenses directly attributable to the purchase of the shares is recognized as a deduction from equity.
- (iii) **Dividends.** The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Ukrainian legislation.

Dividends in relation to ordinary shares are reflected as a reduction in retained earnings in the period when they are declared.

Dividends were not announced and not paid in 2021 and 2020.

- (i) **Reserve fund.** In accordance with effective Ukrainian legislation, banks are required to establish reserve capital in order to cover unforeseen losses on all assets and off-balance sheet liabilities. Reserve capital should be equal to 25% of regulatory capital of a bank, but not less than 25% of the bank's authorized share capital. Reserve capital is established through transfers from net profits after taxes for the reporting year and other obligatory payments and retained earnings of previous years.

The amounts to be transferred to the reserve capital should be not less than 5% of the Bank's profits until the reserve capital reaches 25% of the Bank's regulatory capital.

Should the Bank's operations pose a threat to interests of depositors and other creditors of the Bank, the National Bank of Ukraine has the right to require an increase in reserve capital and annual charges thereto.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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4. Summary of significant accounting policies (continued)

The reserve funds of the Bank may only be used to cover the Bank’s losses for the reporting year in accordance with the decision of the Supervisory Board and in accordance with the procedure established by the general meeting of its shareholders. Furthermore, the effective Ukrainian legislation does not limit distribution of the reserve funds to the Bank’s shareholders upon the Bank’s liquidation after satisfaction of all creditors’ claims.

Holders of ordinary shares are entitled to dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank.

- (j) **Taxation.** Tax (expense) income comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets or liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit, and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized only to the extent that there is a significant probability that future taxable profits will be available against which the temporary differences and unused tax losses can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

- (k) **Earnings per share.** The Bank presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic and diluted EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The Bank has no dilutive potential ordinary shares.

(l) **Income and expense recognition**

Net interest income. Interest income and expense for all financial instruments except for those classified as held for trading and those measured or designated as at fair value through profit or loss (FVTPL) are recognized in “Net Interest Income” as “Interest Income” and “Interest Expense” in the statement of comprehensive income, profit or loss by using the effective interest rate method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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4. Summary of significant accounting policies (continued)

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

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL, transaction costs are recognized in profit or loss at initial recognition.

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

Net commission income. Commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank’s statement of comprehensive income, profit or loss include, among other things, fees charged for servicing a loan, non-utilization fees relating to loan commitments.

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

(m) Segment reporting. An operating segment is a component of the Bank that engages in the business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank).

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

Substantially all operations of the Bank are conducted in Ukraine. The Bank focuses its activities on providing loans and servicing the companies operating in agricultural industry in Ukraine. The main part of the Bank’s income for 2021 comprised revenues from interest income received on loans granted to legal entities (mainly to agricultural producers) amounting to UAH 180,783 thousand out of UAH 200,501 thousand of the total interest income in 2021 (Note 23). The same income for 2020 amounted to UAH 138,337 thousand out of UAH 169,454 thousand of the total interest income in 2020.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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5. Changes in representing

During the year, in accordance with the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”, the Bank for the first time submitted financial statements based on the taxonomy of financial statements according to international standards in a single electronic format for previous reporting periods. The Bank changed the format of presentation and, accordingly, classification of items in the statement of financial position, the statement of comprehensive income, profit or loss, the statement of changes in equity and the statement of cash flows. The Bank's management believes that these changes provide reliable and relevant information. In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the changes were made retrospectively, comparative data for 2020 were adjusted accordingly.

The following is the impact of the change in classifications in the financial statements for the year ended 31 December 2020:

	Previously presented		Impact of reclassifications		Newly presented	
	1 January 2020	31 December 2020	1 January 2020	31 December 2020	1 January 2020	31 December 2020
Property and equipment and intangible assets	15,775	20,139	(15,775)	(20,139)	-	-
Intangible assets other than goodwill	-	-	2,529	5,234	2,529	5,234
Property, plant and equipment	-	-	13,246	14,905	13,246	14,905
Other assets	2,854	3,470	(2,854)	(3,470)	-	-
Other financial assets	-	-	354	15	354	15
Other non-financial assets	-	-	2,500	3,455	2,500	3,455
Other liabilities	14,257	9,787	(14,257)	(9,787)	-	-
Provisions for employee benefits	-	-	7,979	-	7,979	-
Provisions for loan commitments and financial guarantee contracts	-	-	-	105	-	105
Other financial liabilities	-	-	4,969	7,404	4,969	7,404
Other non-financial liabilities	-	-	1,309	2,278	1,309	2,278

Relevant notes for 2021 and 2020 have been changed according to the new presentation.

If necessary, the titles of the main forms of financial statements are adjusted to bring them into line with the taxonomy of financial statements.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued) for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December were as follows:

	2021	2020
Certificates of deposit issued by the National Bank of Ukraine	315,130	470,125
Correspondent accounts	298,783	330,214
Balances with the National Bank of Ukraine	31,309	7,330
Cash	20,938	19,348
Allowance for expected credit losses	(5)	(87)
Total cash and cash equivalents	666,155	826,930

Movements in the loss allowance for cash and cash equivalents for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	(87)	(61)
Release/(charge)	80	(9)
Effect of changes in foreign exchange rates	2	(17)
31 December	(5)	(87)

As at 31 December 2021, certificates of deposit issued by the National Bank of Ukraine with the carrying amount of UAH 315,130 thousand (31 December 2020: UAH 470,125 thousand) and maturing within 14 calendar days were classified by the Bank as cash and cash equivalents.

As at 31 December 2021 and 2020, the NBU did not require to keep a mandatory reserve on the separate account. The Bank has the right to use such balances in its usual operating activities without any restrictions, by controlling the amount of average monthly balance. Accordingly, the Bank classified minimum mandatory reserves with the NBU as cash and cash equivalents.

Cash and cash equivalents on correspondent accounts, less allowances for expected credit losses, as at 31 December were as follows:

	2021	2020
Correspondent accounts		
Domestic banks	791	973
Banks in OECD countries	297,987	329,154
Total correspondent accounts, less allowances for expected credit losses	298,778	330,127

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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6. Cash and cash equivalents (continued)

The following table presents an analysis of cash and cash equivalents on correspondent accounts (less allowance for expected credit losses) by ratings designated by international rating agencies (Standard & Poor’s, Fitch Ratings, and Moody’s) as at 31 December. The ratings are listed below as per coding of the rating agency of Standard and Poor’s using the rating correspondence table of Bloomberg information system.

	2021	2020
Correspondent accounts		
A+ – A-	297,925	329,154
B+ – B-	815	837
Not rated	38	136
Total correspondent accounts, less allowances for expected credit losses	298,778	330,127

As at 31 December 2021, cash and cash equivalents on correspondent accounts placed in one bank with the largest outstanding were UAH 297,925 thousand, or 99.7% of total amount of cash and cash equivalents on correspondent accounts (31 December 2020: UAH 329,154 thousand, or 99.7%).

7. Loans and advances to banks

Loans and advances to banks as at 31 December were as follows:

	2021	2020
Bank accounts which are guarantee deposits	144,557	2,101
Allowance for expected credit losses	(1)	-
Loans and advances to banks	144,556	2,101

As at 31 December 2021, the funds were placed in the National bank of Ukraine and the bank that was assigned with “B” rating by the international rating agency Fitch in 2020, which wasn’t changed in 2021. As at 31 December 2020, the funds were placed in a bank that was assigned with “B” rating by the international rating agency Fitch in 2020.

Movements in the loss allowance for Loans and advances to banks for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	-	-
Release/(charge)	(1)	-
31 December	(1)	-

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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8. Loans and advances to customers

Loans and advances to customers were measured at amortized cost as they met the SPPI criterion and were held to collect the contractual cash flows. Loans and advances to customers as at 31 December were as follows:

	2021	2020
Loans and advances to customers	1,197,481	734,179
Allowances for expected credit losses	(23,105)	(21,674)
Total loans and advances to customers less allowance for expected credit losses	1,174,376	712,505

As at 31 December 2021, loans and advances to ten largest customers amounted to UAH 260,042 thousand, or 22% of total loans and advances to customers (31 December 2020: UAH 172,296 thousand, or 23%).

Movements in the loss allowance for expected credit losses for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	(21,674)	(16,009)
Creation of provisions	(1,363)	(4,482)
Written off against the allowance	-	38
Adjustment of interest income on financial assets of Stage 3 of impairment	(195)	(1,008)
Effect of changes in foreign exchange rates	127	(213)
31 December	(23,105)	(21,674)

See Note 31 for more details on loans and advances to customers.

9. Investments in securities

Investments in securities as at 31 December were as follows:

	2021	2020
Investments in securities	176,673	137,092
Unamortized discount/premium on investments in securities	(35)	(656)
Accrued interest on investments in securities	1,503	3,317
Allowances for expected credit losses	(1,999)	(854)
Total investments in securities	176,142	138,899

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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9. Investments in securities (continued)

Movements in the loss allowance for investments in securities for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	(854)	-
Creation of provisions	(1,146)	(854)
Effect of changes in foreign exchange rates	1	-
31 December	(1,999)	(854)

As at 31 December 2021, the investments in securities in the total amount of UAH 176,142 thousand (31 December 2020: UAH 138,899 thousand) were represented by domestic government loan bonds of Ukraine, which included UAH 170,058 thousand denominated in USD and UAH 6,084 thousand denominated in EUR (as at 31 December 2020, UAH 71,809 thousand denominated in UAH, UAH 63,661 thousand denominated in USD, and UAH 3,429 thousand denominated in EUR).

10. Intangible assets other than goodwill

Movements in intangible assets other than goodwill for the year ended 31 December 2021 were as follows:

	Computer software	Copyright, patents and others	Capital investments in progress	Total
Cost				
As at 1 January 2021	9,333	234	3,116	12,683
Additions	1,969	10	1,523	3,502
Disposals	-	-	(4,639)	(4,639)
Transfers	4,639	-	-	4,639
As at 31 December 2021	15,941	244	-	16,185
Accumulated depreciation and amortization and impairment losses				
As at 1 January 2021	7,270	179	-	7,449
Additions	1,475	27	-	1,502
As at 31 December 2021	8,745	206	-	8,951
Net book value as at 31 December 2021	7,196	38	-	7,234

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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10. Intangible assets other than goodwill (continued)

Movements in intangible assets other than goodwill for the year ended 31 December 2020 were as follows:

	Computer software	Copyright, patents and others	Capital investments in progress	Total
Cost				
As at 1 January 2020	7,685	197	950	8,832
Additions	1,197	76	2,617	3,890
Disposals	-	(39)	(451)	(490)
Transfers	451	-	-	451
As at 31 December 2020	9,333	234	3,116	12,683
Accumulated depreciation and amortization and impairment losses				
As at 1 January 2020	6,117	186	-	6,303
Additions	1,153	23	-	1,176
Disposals	-	(30)	-	(30)
As at 31 December 2020	7,270	179	-	7,449
Net book value as at 31 December 2020	2,063	55	3,116	5,234

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11. Property, plant and equipment

Movements in property, plant and equipment for the year ended 31 December 2021 were as follows:

	Vehicles	Accessories and fixtures	Office equipment	Computers	Communication and network equipment	Other property and equipment	Capital investments in progress	Total
Cost								
As at 1 January 2021	8,972	3,428	1,336	12,605	3,239	15,268	-	44,848
Additions	-	310	350	1,089	390	102	8,349	10,590
Disposals	-	-	-	-	-	(3,726)	-	(3,726)
Transfers	-	-	-	-	-	25	-	25
As at 31 December 2021	8,972	3,738	1,686	13,694	3,629	11,669	8,349	51,737
Accumulated depreciation and amortization and impairment losses								
As at 1 January 2021	6,796	2,442	896	8,060	2,389	9,360	-	29,943
Additions	877	392	130	2,955	411	2,938	-	7,703
Disposals	-	-	-	-	-	(3,726)	-	(3,726)
Transfers	-	-	-	-	-	25	-	25
As at 31 December 2021	7,673	2,834	1,026	11,015	2,800	8,597	-	33,945
Net book value as at 31 December 2021	1,299	904	660	2,679	829	3,072	8,349	17,792

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11. Property, plant and equipment and intangible assets (continued)

Movements in property, plant and equipment for the year ended 31 December 2020 were as follows:

	Vehicles	Accessories and fixtures	Office equipment	Computers	Communication and network equipment	Other property and equipment	Total
Cost							
As at 1 January 2020	8,076	2,834	894	16,800	4,547	10,317	43,468
Additions	896	594	442	2,122	165	4,952	9,171
Disposals	-	-	-	(6,317)	(1,473)	(1)	(7,791)
As at 31 December 2020	8,972	3,428	1,336	12,605	3,239	15,268	44,848
Accumulated depreciation and amortization and impairment losses							
As at 1 January 2020	5,245	1,910	798	11,577	3,389	7,303	30,222
Additions	1,551	532	98	2,800	473	2,058	7,512
Disposals	-	-	-	(6,317)	(1,473)	(1)	(7,791)
As at 31 December 2020	6,796	2,442	896	8,060	2,389	9,360	29,943
Net book value as at 31 December 2020	2,176	986	440	4,545	850	5,908	14,905

As at 31 December 2021 and 2020, included in property, plant and equipment and intangible assets were fully depreciated and amortized property, plant and equipment and intangible assets in the amount of UAH 22,151 thousand and UAH 19,656 thousand, respectively.

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12. Right-of-use assets

The right-of-use assets for the year ended 31 December were buildings and premises and were represented as follows:

	2021	2020
Cost		
As at 1 January	29,283	24,013
Additions	25,580	5,270
Disposals	(17,474)	-
As at 31 December	37,389	29,283
Accumulated depreciation		
As at 1 January	18,084	8,082
For the year	9,866	9,641
Revaluation	-	361
Disposals	(16,918)	-
As at 31 December	11,032	18,084
Net book value as at 31 December	26,357	11,199

The average lease term is 3 years. The Bank has no options to purchase the leased assets for a nominal amount at the end of the lease term.

In 2021, the bank relocated to a new office and continued the process of expanding its network of branches, which explains the increase in additions during 2021. Maturity analysis of lease liabilities is presented in Note 32.

13. Other financial assets

Other financial assets as at 31 December were as follows:

	2021	2020
Accounts receivable on payment card transactions	33	22
Other receivables	10	-
Allowance for impairment losses	-	(7)
Total	43	15

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13. Other financial assets (continued)

Movements in the loss allowance for other financial assets for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	(7)	-
Creation of provisions	-	(7)
Written off against the allowance	7	-
31 December	-	(7)

14. Other non-financial assets

Other non-financial assets as at 31 December were as follows:

	2021	2020
Prepayments	5,207	3,292
Other assets	386	303
Inventories	336	197
Accounts receivable for other taxes	10	-
Allowance for impairment losses	(568)	(337)
Total	5,371	3,455

Movements in the loss allowance for other non-financial assets for the years ended 31 December 2021 and 2020 were as follows:

	2021	2020
1 January	(337)	(1,669)
Creation of provisions	(231)	1,332
Written off against the allowance	-	-
31 December	(568)	(337)

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15. Due to other banks

Due to other banks include the loans from the National Bank of Ukraine as at 31 December 2021. Due to other banks include the loans from the National Bank of Ukraine and the loan from another bank as at 31 December 2020.

The following table summarizes movements of the Bank’s liabilities on the loans from other banks and the National Bank of Ukraine that arise from operating and financing activities, including movements caused by cash and non-cash changes.

	2021	2020
Due to other banks as at 1 January	80,000	90,154
Loans from other banks	-	2,000
Repayment of loans from other banks	-	(92,226)
Loans from the National Bank of Ukraine	237,789	80,000
Repayment of loans from the National Bank of Ukraine	(80,000)	-
Accrued interest expenses on loans from other banks	-	72
Total due to other banks as at 31 December	237,789	80,000

In 2021, the Bank borrowed the UAH-denominated long-term loans from National Bank of Ukraine in the amount of UAH 237,789 thousand at the discount rate of the NBU maturing in 2024-2026 in order to use those funds for the main activities of financing small and medium-sized businesses in the agricultural sector of Ukraine and to manage the Bank’s liquidity.

Loans from the National Bank of Ukraine were secured by a pool of the Bank’s assets in the amount of UAH 276,338 thousand, namely: as at 31 December 2021 UAH 135,126 thousand were secured by investments in securities and UAH 141,212 thousand by bank accounts which are guarantee deposits (31 December 2020: NBU loans secured by investments in securities in the amount UAH 91,084 thousand). According to the terms of the agreement with the National Bank of Ukraine, the Bank has the right to take measures to include/exclude/replace assets (property) that form a pool of collateral. Therefore, in Note 32 these financial assets are presented according to the terms of maturity under the terms of the agreements.

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16. Customer accounts

Customer accounts as at 31 December were as follows:

	2021	2020
Balance on customer current accounts	643,458	506,956
Balance on customer term deposit accounts	416,094	357,101
Balance on customer demand deposit accounts	103,108	29,721
Balance on other customer deposit accounts	24,901	11,834
Total customer accounts	1,187,561	905,612

As at 31 December 2021, customer accounts of ten largest customers amounted to UAH 332,779 thousand, or 28% of total customer accounts of the Bank (31 December 2020: UAH 322,922 thousand, or 36%).

Customer accounts as at 31 December were as follows:

	2021	2020
Retail		
Term deposits	351,373	281,983
Current accounts	45,300	33,517
Dormant accounts	2,099	2,022
Total retail accounts	398,772	317,522
Corporate		
Current accounts	701,266	503,161
Term deposits	64,721	75,118
Escrow accounts	22,708	9,736
Dormant accounts	94	75
Total corporate accounts	788,789	588,090
Total	1,187,561	905,612

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17. Subordinated debt

Subordinated debt as at 31 December was as follows:

	2021	2020
Subordinated debt	54,557	56,549
Unamortized premium on subordinated debt	6	6
Accrued expense on subordinated debt	74	77
Total	54,637	56,632

Movements in liabilities for the years were as follows:

	2021	2020
Subordinated debt as at 1 January	56,632	47,441
Accrued interest expenses on subordinated debt	4,501	4,513
Interest expense on subordinated debt paid	(4,495)	(4,680)
Effect of exchange rate changes	(2,001)	9,358
Subordinated debt as at 31 December	54,637	56,632

On 30 May 2016, the Bank concluded a loan agreement with Agro Holdings (Ukraine) Limited (on subordinated debt terms) for the amount of USD 2,000 thousand with the interest rate of 11% per annum maturing on 1 December 2021.

On 9 October 2017, the Bank concluded an additional agreement with Agro Holdings (Ukraine) Limited regarding the interest rate change (5% per annum) and the extension of maturity until 1 December 2030. On 26 March 2018, the Bank concluded an additional agreement according to which the interest rate was increased to 8.25% per annum.

18. Other borrowed funds

Other borrowed funds are represented by loans from international organizations as at 31 December 2020 and 2021 and were as follows:

	2021	2020
Loans from international and other organizations	334,361	312,523
Unamortized discount on loans from international and other organizations	(1,388)	(3,001)
Accrued interest expenses on loans from international and other organizations	7,202	4,823
Total other borrowed funds	340,175	314,345

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18. Other borrowed funds (continued)

Other borrowed funds include UAH-denominated loans from an International Investment Fund with the maturity in March and December 2022 and loan in amount USD 2.5 million from the parent company, maturing in April 2023. The Bank uses these funds for issue of loans to small and medium businesses in the agricultural sector of Ukraine.

The agreement presupposes that the Bank comply with certain covenants. The Bank was in compliance with those requirements as at 31 December 2021.

The table below details changes in the Bank’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Bank’s statement of cash flows as cash flows from financing and operating activities.

	2021	2020
Other borrowed funds as at 1 January	314,345	157,992
Net cash flows (i)	23,787	153,987
Net profit (loss) from foreign currency revaluation	(1,925)	-
Other changes (ii)	3,968	2,366
Other borrowed funds as at 31 December	340,175	314,345

- (i) Net cash flows from borrowings from international financial institutions make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows;
- (ii) Other changes include interest accruals and payments, which are included in the statement of cash flow as cash flow from operating activities.

19. Lease liabilities

Lease liabilities as at 31 December were as follows:

	2021	2020
Lease liabilities	26,708	10,602
Accrued expense on lease liabilities	116	83
Total lease liabilities	26,824	10,685

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19. Lease liabilities (continued)

Movements of lease liabilities for years ended 31 December were as follows:

	2021	2020
Lease liabilities as at 1 January	10,685	15,591
Increase in lease liabilities	25,078	4,828
Interest accrued	1,227	2,239
Repayment of interest of lease liabilities	(1,186)	(2,282)
Repayment of lease liabilities	(8,803)	(9,952)
Write-off of liabilities in case of early termination of the lease agreement	(554)	-
Changes in rents due to changes in foreign exchange rates	378	261
The result of the recognition of the lease agreement	(1)	-
Lease liabilities as at 31 December	26,824	10,685

The discounted lease payments for non-residential premises as at 31 December were as follows:

	2021	2020
Non-current	18,865	3,024
Current	7,959	7,661
Total lease liabilities	26,824	10,685

The Bank's lease liabilities have arisen from the lease of non-residential premises in which the offices are located that are used for the purpose of conducting banking activities: the Head Office and branches.

The following amounts of leases were recognized in the statement of comprehensive income, profit or loss for the year ended 31 December 2021 and 2020:

	2021	2020
Depreciation of right-of-use assets (Notes 12, 28)	9,866	9,641
Interest expense on lease liabilities (Note 24)	1,227	2,239
Expense relating to short-term leases (Note 29)	4,617	543
Income from rent concession (Notes 3, 26)	-	248
Expense relating to leases of low value assets (Note 29)	4	4

As at 31 December 2021, the Bank is committed to UAH 328 thousand (as at 31 December 2020 – UAH 88 thousand) for short-term leases.

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19. Lease liabilities (continued)

The information about total cash outflows from operating leases in 2021 in the amount of UAH 14,610 thousand is disclosed in the statement of cash flows, which include expenses related to repayment of lease liabilities, interest expense on lease liabilities, expenses related to short-term leases and leases of low-value assets in the amount of UAH 8,803 thousand, UAH 1,186 thousand and UAH 4,621 thousand, respectively.

Bank is not exposed to a significant liquidity risk with regards to its lease liabilities.

The Bank has no commitments on the leases that have not yet commenced.

20. Other financial liabilities

Other financial liabilities as at 31 December were as follows:

	2021	2020
Other financial liabilities		
Liabilities for settlements with employees	7,533	4,487
Accounts payable for business transactions	1,573	580
Accounts payable for payments with payment cards	524	385
Accounts payable for promissory note transactions	165	211
Accounts payable for transactions with banks	3	4
Accounts payable for credit operations	-	1,737
Total other financial liabilities	9,798	7,404

21. Other non-financial liabilities

Other non-financial liabilities as at 31 December were as follows:

	2021	2020
Other non-financial liabilities		
Taxes payable, excluding income tax and VAT, and other mandatory payments	1,033	580
Provisions for other non-financial liabilities	126	101
Accounts payable for value added tax	36	244
Other accounts payable, including:		
Deferred income	1,031	1,353
Total other non-financial liabilities	2,226	2,278

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22. Issued capital

(a) **Issued capital.** As at 31 December 2016, registered, issued, and outstanding issued capital comprised 160,000,000 ordinary shares.

On 28 February 2017, the Parent decided to increase the issued capital of the Bank by UAH 50,000 thousand through private placement of additional ordinary shares of the existing nominal value by means of the additional contribution.

As at 31 December 2017, registered, issued, and outstanding issued capital of the Bank comprised 210,000,000 ordinary shares.

On 13 October 2017, the Parent decided to increase issued capital of the Bank by UAH 100,000 thousand through private placement of additional ordinary shares of the existing nominal value by means of the additional contribution.

On 28 March 2018, the new version of the Bank’s Charter was approved by the National Bank of Ukraine due to the increase in the issued capital as a result of the additional placement of shares. As at 31 December 2021 and 2020, the registered issued capital of the Bank amounted to UAH 310,000 thousand.

(b) **Basic earnings (loss) per share to the equity holders of the bank.** Calculation of basic earnings per share as per the statement of profit and loss and other comprehensive income was based on profits for the year attributable to ordinary shareholders and the number of ordinary shares (including unregistered shares). The calculation of the average number of ordinary outstanding shares and basic and diluted earnings (losses) per share is provided below:

	2021	2020
Net profit for the year attributable to owners of the Bank	10,053	596
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	310,000	310,000
Basic earnings (loss) per share to the equity holders of the bank	0.032	0.002

The Bank has no dilutive potential ordinary shares.

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23. Interest income

Interest income for the year ended 31 December that represent interest income for financial assets measured at amortized cost and calculated in accordance with effective interest rate method was as follows:

	2021	2020
Loans and advances to customers	180,783	138,337
Certificates of deposit issued by the NBU	11,644	27,267
Investments in securities	7,962	3,743
Loans and advances to banks	112	107
Total interest income	200,501	169,454

24. Interest expense

Interest expense for the year ended 31 December that represent interest expense for financial liabilities measured at amortized cost, and calculated in accordance with effective interest rate method was as follows:

	2021	2020
Other borrowed funds	34,206	42,641
Customer accounts	30,252	35,476
Loans from the National Bank of Ukraine	14,821	688
Subordinated debt	4,501	4,513
Interest expense on lease liabilities	1,227	2,239
Due to other banks	8	2,203
Total interest expense	85,015	87,760

25. Commission income

Commission income for the year ended 31 December was as follows:

	2021	2020
Transactions in foreign exchange market	27,050	20,942
Settlement and cash services	9,352	8,113
Avalised bills of exchange	308	547
Loan servicing	196	233
Other fee and commission income	458	13
Total commission income	37,364	29,848

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26. Other gains (losses)

Other gains (losses) for the years ended 31 December comprised the following:

	2021	2020
Fines and penalties	386	554
Income on financial assets modification	203	117
Income on operations with individual safes	199	196
Legal fees recoverable	133	77
Reimbursements from insurance company	23	58
Income on de-recognition of financial instruments	14	22
Income from rent concession	-	248
Income on disposal of non-current assets	-	8
Other income	9	2
Total other gains (losses)	967	1,282

27. Employee benefits expense

Employee benefits expense for the years ended 31 December were as follows:

	2021	2020
Payroll	60,440	51,264
Mandatory contributions to social insurance funds	13,348	9,982
Provisions for staff payments	7,396	-
Financial aid	473	452
Staff training	12	126
Other	4,745	5,780
Total employee benefits expense	86,414	67,604

28. Depreciation and amortization

Depreciation and amortization expenses for the years ended 31 December were as follows:

	2021	2020
Depreciation of right-of-use assets (Note 12)	9,866	9,641
Depreciation of property, plant and equipment (Note 11)	7,703	7,509
Depreciation of software and intangible assets (Note 10)	1,502	1,176
Total depreciation and amortization expenses	19,071	18,326

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29. Other administrative and operational expenses

Other administrative and operational expenses for the years ended 31 December were as follows:

	2021	2020
Maintenance of non-current assets	6,546	5,354
IT support costs	5,402	3,312
Expenses related to short-term leases and leases of low-value assets (Note 16)	4,621	547
General banking expenses	4,370	4,244
Communication	3,188	2,896
Maintenance charges and utilities	2,983	2,299
Contributions to Individual Deposit Guarantee Fund	2,567	1,897
Advertising and marketing	2,161	1,935
Professional services	1,827	2,105
Expenses on financial assets modification	223	1,315
Other	3,713	2,510
Total other administrative and operational expenses	37,601	28,414

In 2021, the Bank received the following professional services from the audit company, except for statutory audit services, namely: consulting services on the analysis of management’s statements regarding the effectiveness of the Bank’s controls under transactions with customer accounts.

30. Tax income (expense)

According to the Ukrainian legislation, the statutory income tax rate for the years ended 31 December 2021 and 2020 was at 18%.

(a) Reconciliation of the income tax rate

	2021	2020
Profit before tax	12,482	794
Income tax expense at the statutory income tax rate	(2,247)	(143)
Non-deductible expenses	(182)	(55)
Income tax expense	(2,429)	(198)

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30. Tax income (expense) (continued)

(b) **Deferred tax (liabilities)/assets.** Deferred tax (liabilities)/assets as at 31 December were as follows:

	2021	2020
<i>Deferred tax assets attributable to:</i>		
Property, plant and equipment	1,049	1,101
Tax losses carried forward	2,981	5,354
Reserves on avalised bills of exchange and legal risks	34	38
Total deferred tax assets	4,064	6,493
Unrecognized deferred tax assets	(4,508)	(4,508)
Total net deferred tax (liabilities)/assets	(444)	1,985

31. Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial losses or additional losses or under-received planned income to the Bank. The Bank's main income generating activity is lending to customers and, therefore, credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and loans and advances to banks (including related commitments), investments in certificates of deposit issued by the National Bank of Ukraine and investments in domestic government loan bonds that are treated as assets. The Bank considers all elements of credit risk exposure, such as counterparty/group of counterparties default risk, geographical risk, and industry risk for risk management purposes.

(a) **Credit risk management.** The Bank's Credit Committee, within the scope of its authority, is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance;
- Identifying, assessing, measuring, monitoring, mitigating, and controlling credit risk across the Bank, from an individual instrument to a portfolio level;
- Creating credit policies to protect the Bank against the identified risks, including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers, and to continually monitor exposures against internal risk limits;
- Limiting concentrations of exposure by type of asset, counterparties, industry, geographical location, types of collateral, etc.;
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of loan agreements;

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Notes to the Financial Statements (continued)
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31. Credit risk (continued)

- Developing and maintaining the Bank’s processes for measuring ECLs, including monitoring of credit risk and expert opinion of the Bank’s management based on the experience of lending to the target segment of the institution;
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools, and data to assess credit risk and to account for ECLs. Providing advice, guidance, and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank has developed policies and procedures for managing credit risk exposures (both for on-balance sheet and off-balance sheet exposures), including guidelines to limit a portfolio concentration and the establishment of Credit Committee, which actively monitors credit risks. The credit policies are reviewed and approved by the Supervisory Board of the Bank.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposures (such as individual customer and counterparty default risk, country and industry risk, collateral concentration and crop concentration risk).

The Bank manages its credit risk by establishing limits in relation to single borrowers and groups of borrowers, and by complying with exposure limits established by the National Bank of Ukraine.

To manage credit risk, the Bank assesses and reassesses its borrowers based on their financial performance, credit history, and credit exposure on transactions with specific borrowers. Decisions on lending operations with related parties are made based on the same procedures as for the rest of the borrowers and in accordance with the legislative requirements.

The following collegiate authorities of the Bank are responsible for granting permissions to conduct operations with credit risk:

- The Supervisory Board of the Bank considers and approves lending operations for the amount exceeding 10% of the assets value based on the latest annual financial statements of the Bank.
- The Bank’s Management Board considers and approves lending operations for the amount of up to 10% of the assets value based on the latest annual financial statements of the Bank and delegates the part of authorities to the Bank’s Credit Committee. Loan requests that go beyond the authorities of the Credit Committee are approved by the Management Board.

The maximum exposure to on-balance sheet credit risk is represented by the carrying amounts of financial assets on the statement of financial position.

- (b) Significant increase in credit risk.** The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the expected credit losses based on lifetime rather than 12-month ECLs.

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Notes to the Financial Statements (continued)
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31. Credit risk (continued)

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank’s internal credit risk management process. The criteria for determining whether credit risk has increased significantly vary by portfolio and include a backstop based on delinquency.

The Bank assumes that the credit risk of a specific exposed position has increased significantly since its initial recognition, if the number of days of debt overdue by any loan is more than 30 days; in case of significant financial difficulties of the client; in case of risk-restructuring of the debtor’s debt without fixing the default, in case of a significant reduction (worsening) of the probability of default of the borrower. In assessing the increase in credit risk, the expected credit losses for the entire life of the remaining financial instrument are adjusted taking into account changes in maturity.

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

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

(c) Incorporation of forward-looking information. The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECLs. The Bank employs experts who use internal and external information, including economic data and forecasts published by governmental bodies, monetary authorities and leading rating agencies, to generate forward-looking information attributable to forecast of future harvest volume and sales prices on agrarian products.

(d) Measurement of ECLs. The key inputs into the measurement of ECLs are:

- Probability of default (PD);

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31. Credit risk (continued)

- Loss given default (LGD);and
- Exposure at default (EAD).

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical data, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical data are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted on estimates of future conditions that will impact PD such as differences in the size of borrowers' business, relatively low level of default in the current loan portfolio, the forecast of future economic conditions/events and prices for next season's agricultural product and expert judgment of the Bank's management based on the experience of lending to clients that are the target segment for the institution.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective interest rate of the loan.

The Bank's own statistics for determining LGD are not yet representative, given the lifetime of the new business model and absence of own relevant historical data. Thus, the Bank assesses that LGD is equal to 1.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Allowances for ECLs are measured on an individual basis, or on a collective basis for loans with shared risk characteristics. A loss allowance for full lifetime ECLs is required for loans to customers if the credit risk on that financial instrument has increased significantly since initial recognition. For all other loans to customers, allowances for ECLs are measured at an amount equal to the 12-month ECLs.

For loans to customers measured on an individual basis, ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive using the asset's original effective interest rate arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR. The Bank uses these scenarios, which are probability-weighted, to adjust its estimates of PD.

- (e) **Collateral.** Fair value of collateral is estimated at the date when collateral is obtained and is adjusted for subsequent significant changes in market prices annually in the case of real estate, agricultural machinery and equipment, or from 2 to 4 times a year in the case of other assets used as a collateral in accordance with the Bank's policies.

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31. Credit risk (continued)

The table below summarizes the proportionate amounts of all loans secured by collateral, rather than the fair value of the collateral itself:

	2021	2020
Loans collateralized by agricultural machinery and equipment	887,845	515,931
Loans collateralized by future harvest	152,855	117,254
Loans collateralized by other types of collateral (real estate, deposits, vehicles, etc.)	124,352	67,027
Loans collateralized by agrarian receipts	-	769
Unsecured loans	32,429	33,198
Total loans and advances to customers before allowance for expected credit losses	1,197,481	734,179
Allowance for expected credit losses	(23,105)	(21,674)
Total loans and advances to customers less allowance for expected credit losses	1,174,376	712,505

As at 31 December 2021 and 2020, the impact of collateral on the calculation of expected credit losses was not significant as the Bank included the collateral in ECL calculation only for default loans that are measured on an individual basis.

The table below summarizes the proportionate amounts of impaired loans (Stage 3) secured by collateral, rather than the fair value of the collateral itself:

	2021	2020
Loans collateralized by agricultural machinery and equipment	6,181	8,096
Loans collateralized by future harvest	1,388	1,248
Loans collateralized by agrarian receipts	-	769
Loans collateralized by other types of collateral (real estate, deposits, vehicles, etc.)	2,013	766
Total loans and advances to customers before allowance for expected credit losses	9,582	10,879
Allowance for expected credit losses	(7,318)	(8,271)
Total loans and advances to customers less allowance for expected credit losses	2,264	2,608

- (f) **Groupings based on shared risk characteristics.** Considering that the Bank focuses on lending to agricultural clients with a similar risk profile, for the purpose of measuring ECLs, the Bank considers loans granted as a single portfolio with the same risk characteristics.

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31. Credit risk (continued)

(g) **Credit quality.** The Bank’s main specialization is corporate lending to agrarian producers. The Bank’s credit risk concentrations by region as at 31 December were as follows:

Loans and advances to customers	2021	2020
<i>Concentration by region</i>		
Vinnyska	15%	16%
Poltavska	12%	14%
Kyivska	11%	9%
Ternopil'ska	11%	9%
Kharkiv'ska	11%	6%
Khmelnyska	8%	9%
Chernihiv'ska	6%	7%
Volyn'ska	5%	6%
Rivnenska	5%	7%
Lviv'ska	3%	4%
Other regions of Ukraine	13%	13%

The analysis of the Bank’s credit risk exposure per days past due and “Stage” without taking into account the effects of any collateral or other credit enhancements is provided in the following table. Unless specifically indicated, for loans and advances to customers, the amounts in the table represent gross carrying amounts as at 31 December:

Loans and advances to customers	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2021
0-30 days	1,178,578	9,321	3,555	1,191,454
31-60 days	-	-	-	-
61-90 days	-	-	-	-
More than 90 days	-	-	6,027	6,027
Total gross carrying amount as at 31 December 2021	1,178,578	9,321	9,582	1,197,481
Allowance for expected credit losses	(15,325)	(462)	(7,318)	(23,105)
Carrying amount as at 31 December 2021	1,163,253	8,859	2,264	1,174,376

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31. Credit risk (continued)

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2020
Loans and advances to customers				
0-30 days	678,551	44,749	4,916	728,216
31-60 days	-	-	667	667
61-90 days	-	-	-	-
More than 90 days	-	-	5,296	5,296
Total gross carrying amount as at 31 December 2020	678,551	44,749	10,879	734,179
Allowance for expected credit losses	(10,857)	(2,546)	(8,271)	(21,674)
Carrying amount as at 31 December 2020	667,694	42,203	2,608	712,505

As at 31 December 2021 and 2020, there are no POCI loans and advances to customers.

Significant changes in the gross carrying amount of financial assets originated from new financial assets, which contributed to changes in the amount of allowance for expected credit losses. More details about the significant changes in the gross carrying amount and allowance for expected credit losses on loans and advances to customers during the years 2021 and 2020 are provided in the tables below:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2021
Loans and advances to customers				
Gross carrying amount as at 1 January 2021	678,551	44,749	10,879	734,179
Changes in the gross carrying amount:				
– Transfer to Stage 1	1,383	(1,383)	-	-
– Transfer to Stage 2	(5,120)	5,120	-	-
– Transfer to Stage 3	-	(7,693)	7,693	-
New loans and advances to customers	996,272	-	-	996,272
Fully repaid loans and advances to customers	(428,534)	(18,489)	(7,794)	(454,817)
Write-offs	-	-	-	-
Other changes (including partial repayments and changes in foreign exchange rates)	(63,974)	(12,983)	(1,196)	(78,153)
Gross carrying amount as at 31 December 2021	1,178,578	9,321	9,582	1,197,481
Allowance for expected credit losses	(15,325)	(462)	(7,318)	(23,105)
Carrying amount as at 31 December 2021	1,163,253	8,859	2,264	1,174,376

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31. Credit risk (continued)

Loans and advances to customers	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2020
Gross carrying amount as at 1 January 2020	551,705	14,828	8,975	575,508
Changes in the gross carrying amount:				
– Transfer to Stage 1	-	-	-	-
– Transfer to Stage 2	(47,927)	47,927	-	-
– Transfer to Stage 3	(2,798)	(3,815)	6,613	-
New loans and advances to customers	652,149	-	-	652,149
Fully repaid loans and advances to customers	(440,527)	(3,197)	(3,358)	(447,082)
Write-offs	-	-	(38)	(38)
Other changes (including partial repayments and changes in foreign exchange rates)	(34,051)	(10,994)	(1,313)	(46,358)
Gross carrying amount as at 31 December 2020	678,551	44,749	10,879	734,179
Allowance for expected credit losses	(10,857)	(2,546)	(8,271)	(21,674)
Carrying amount as at 31 December 2020	667,694	42,203	2,608	712,505
Loans and advances to customers	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2021
Allowance for expected credit losses as at 1 January 2021	(10,857)	(2,546)	(8,271)	(21,674)
Changes in the allowance for expected credit losses:				
– Transfer to Stage 1	(26)	26	-	-
– Transfer to Stage 2	82	(82)	-	-
– Transfer to Stage 3	-	576	(576)	-
– Increases due to changes in credit risk	-	(170)	(3,347)	(3,517)
– Decreases due to changes in credit risk	14	-	-	14
– Write-offs	-	-	-	-
New loans and advances to customers	(12,956)	-	-	(12,956)
Fully repaid loans and advances to customers	6,857	1,093	5,856	13,806
Other changes (including partial repayments and changes in foreign exchange rates)	1,561	641	(980)	1,222
Allowance for expected credit losses as at 31 December 2021	(15,325)	(462)	(7,318)	(23,105)

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31. Credit risk (continued)

Loans and advances to customers	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total 2020
Allowance for expected credit losses as at 1 January 2020	(11,585)	(571)	(3,853)	(16,009)
Changes in the allowance for expected credit losses:				
– Transfer to Stage 1	-	-	-	-
– Transfer to Stage 2	842	(842)	-	-
– Transfer to Stage 3	287	328	(615)	-
– Increases due to changes in credit risk	-	(1,650)	(3,413)	(5,063)
– Decreases due to changes in credit risk	-	-	-	-
– Write-offs	-	-	38	38
New loans and advances to customers	(10,665)	-	-	(10,665)
Fully repaid loans and advances to customers	9,251	73	870	10,194
Other changes (including partial repayments and changes in foreign exchange rates)	1,013	116	(1,298)	(169)
Allowance for expected credit losses as at 31 December 2020	(10,857)	(2,546)	(8,271)	(21,674)

As a result of the Bank’s forbearance activities, financial assets were modified. The following tables refer to modified financial assets where modification does not result in de-recognition.

Loans and advances to customers with allowance for losses based on lifetime ECLs that were modified during the years ended 31 December:

	2021	2020
Gross carrying amount before modification	12,567	16,457
Provision on expected credit losses before modification	(577)	(4,650)
Net amortized cost before modification	11,990	11,807
Net modification loss	20	(19)
Net amortized cost after modification	12,010	11,788

Cash and cash equivalents (certificates of deposit issued by the National Bank of Ukraine, balances with the National Bank of Ukraine), investments in securities and loans and advances to banks, as at 31 December 2021 and 2020, were assigned a B rating, which did not change in 2021, according to the international rating agency Fitch, and are at Stage 1. Issued avalised bills of exchange as at 31 December 2021 and 2020, by the number of days overdue, belong to the “0-30 days” basket and are at Stage 1.

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Notes to the Financial Statements (continued)
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32. Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost or under-received planned income. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of the Bank-specific and market-wide events.

Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

(a) Liquidity risk management. The Bank established a comprehensive policy and control framework for managing liquidity risk. The Bank’s Asset and Liability Management Committee (ALCO) is responsible for managing the Bank’s liquidity risk via a combination of policy formation, review and governance, analysis, limit setting and monitoring. In order to effectively manage liquidity risk, the Bank:

- Maintains a portfolio of high quality liquid assets, in a variety of currencies and tenors;
- Ensures that there is diversity in its funding base;
- Monitors the behavioral characteristics of financial assets and liabilities;
- Monitors liquidity reports on daily, weekly, monthly, quarterly, and yearly basis;
- Analyzes the expected maturity profile of assets and liabilities;
- Establishes early warning indicators of potential liquidity stress events and ensures that there are assets available to be used as collateral if needed;
- Performs regular stress tests;
- Manages liquidity within the operational day;
- Monitors the reliability of statistical reporting on liquidity risk provided to the National Bank of Ukraine; and
- Maintains a contingency funding plan designed to provide a framework where a liquidity stress could be effectively managed.

The Bank Treasury function executes the Bank’s liquidity and funding strategy in co-operation with other business units of the Bank. The Bank’s liquidity and funding strategy is determined in accordance with relevant local regulatory requirements. The Bank’s foreign operations determine a local liquidity strategy which needs to be in line with both local regulatory framework and the National Bank of Ukraine.

There are daily controls in place to define and monitor compliance with the Bank’s liquidity risk appetite. The principal metric used is the result of the Bank’s liquidity stress testing, supplemented by the results of key regulatory ratios including the Liquidity Coverage Ratio (which measures the ratio of high quality liquid assets to outflows in an extreme 30 day stress scenario).

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Notes to the Financial Statements (continued)
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32. Liquidity risk (continued)

Management’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation. The liquidity policy is reviewed and approved by the Supervisory Board.

The Bank’s liquidity management covers analysis of level of liquid assets, provision of access to various funding sources, existence of plans of actions in cases of financing constraints, and control of compliance with statutory liquidity ratios. The Bank assesses and manages its liquidity positions by applying, in particular, the liquidity ratios established by the National Bank of Ukraine.

(b) Maturity analysis for financial assets and financial liabilities. The following table shows financial assets and liabilities by remaining contractual maturities as at 31 December 2021:

	Less than 1 month and on demand	From 1 month to 1 year	From 1 to 5 years	More than 5 years	31 December 2021 Total
Financial assets					
Cash and cash equivalents	666,155	-	-	-	666,155
Loans and advances to banks	144,556	-	-	-	144,556
Loans and advances to customers	124,931	662,730	386,715	-	1,174,376
Investments in securities	27,225	75,409	73,508	-	176,142
Other financial assets	43	-	-	-	43
Total	962,910	738,139	460,223	-	2,161,272
Financial liabilities					
Due to other banks	-	-	237,789	-	237,789
Customer accounts	833,664	302,770	51,127	-	1,187,561
Other borrowed funds	48,841	220,838	70,496	-	340,175
Provision for credit commitments and financial guarantee contracts	-	50	12	-	62
Lease liabilities	848	7,111	18,865	-	26,824
Other financial liabilities	9,059	699	40	-	9,798
Subordinated debt	74	-	-	54,563	54,637
Total	892,486	531,468	378,329	54,563	1,856,846
Contingent liabilities					
Avalised bills of exchange	4,754	-	-	-	4,754
Total	4,754	-	-	-	4,754
Liquidity excess/(gap) for the period	65,670	206,671	81,894	(54,563)	299,672
Cumulative liquidity excess	65,670	272,341	354,235	299,672	

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Notes to the Financial Statements (continued)
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32. Liquidity risk (continued)

The following table shows financial assets and liabilities by remaining contractual maturity dates as at 31 December 2020:

	Less than 1 month and on demand	From 1 month to 1 year	From 1 to 5 years	More than 5 years	31 December 2020 Total
Financial assets					
Cash and cash equivalents	826,930	-	-	-	826,930
Loans and advances to banks	2,101	-	-	-	2,101
Loans and advances to customers	51,218	464,977	196,310	-	712,505
Investments in securities	-	125,068	13,831	-	138,899
Total	880,249	590,045	210,141	-	1,680,435
Financial liabilities					
Due to other banks	-	-	80,000	-	80,000
Customer accounts	687,438	178,997	39,177	-	905,612
Other borrowed funds	79,424	53,165	181,756	-	314,345
Provision for credit commitments and financial guarantee contracts	-	-	105	-	105
Lease liabilities	821	6,840	3,024	-	10,685
Other financial liabilities	7,125	68	211	-	7,404
Subordinated debt	77	-	-	56,555	56,632
Total	774,885	239,070	304,273	56,555	1,374,783
Contingent liabilities					
Avalised bills of exchange	6,582	-	-	-	6,582
Total	6,582	-	-	-	6,582
Liquidity excess/(gap) for the period	98,782	350,975	(94,132)	(56,555)	299,070
Cumulative liquidity excess	98,782	449,757	355,625	299,070	

The amounts in the tables higher represent the carrying amounts of the assets and liabilities as at the reporting dates and do not include future interest payments.

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Notes to the Financial Statements (continued)
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32. Liquidity risk (continued)

The table below presents a maturity analysis of the Bank’s financial liabilities and lending commitments. The sums of the balances depicted in the maturity analysis do not reconcile with the carrying amounts of the liabilities as disclosed in the statement of financial position. This is because the maturity analysis incorporates, on an undiscounted basis, all cash flows relating to principal and future interest payments.

	Less than 1 month	From 1 month to 1 year	From 1 to 5 years	More than 5 years	31 December 2021 Total
Due to other banks	1,818	19,583	303,596	-	324,997
Customer accounts	836,135	320,959	53,902	-	1,210,996
Other borrowed funds	49,130	241,045	71,468	-	361,643
Lease liabilities	881	8,412	20,504	-	29,797
Other financial liabilities	9,059	699	40	-	9,798
Subordinated debt	259	-	18,014	76,525	94,798
Avalised bills of exchange	4,754	-	-	-	4,754
	902,036	590,698	467,524	76,525	2,036,783

	Less than 1 month	From 1 month to 1 year	From 1 to 5 years	More than 5 years	31 December 2020 Total
Due to other banks	408	4,392	98,457	-	103,257
Customer accounts	687,705	185,393	44,655	-	917,753
Other borrowed funds	80,558	73,145	199,320	-	353,023
Lease liabilities	1,053	7,381	3,177	-	11,611
Other financial liabilities	7,125	68	211	-	7,404
Subordinated debt	269	-	18,674	83,979	102,922
Avalised bills of exchange	6,582	-	-	-	6,582
	783,700	270,379	364,494	83,979	1,502,552

33. Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads, and equity prices will affect income or the value of portfolios of financial instruments. Market risk arises from open positions in interest rate, currency, and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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Notes to the Financial Statements (continued)
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33. Market risk (continued)

(a) **Market risk management.** The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk. The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity, and currency positions. They are monitored on a regular basis and reviewed in case of changes in the market condition.

As with liquidity risk, ALCO is responsible for ensuring the effective management of market risk throughout the Bank. The core market risk management activities are:

- Identifying all key market risks and their drivers;
- Measuring independently and assessing key market risks and their drivers;
- Using the results and estimates as the basis for the Bank’s risk/return-oriented management; and
- Monitoring risks and regular reporting (daily, weekly, monthly, quarterly, and yearly) on them.

The Bank uses a wide range of quantitative and qualitative tools to manage and monitor its market risk. Quantitative limits for open currency positions and interest risk rates (IRR GAP), value at risk (VaR), stress tests, liquidity coverage ratios (LCR), and liquidity ratios of the NBU are used to enforce the Bank’s market risk appetite. The quantitative and qualitative factors limiting market price risk are determined by the Bank’s Risk Strategy. Based on qualitative analyses and quantitative ratios, the market risk function identifies potential future risks, anticipates, in collaboration with the finance function, potential financial losses, and defines proposals for further action, which are discussed with the market units. Market risk reports reflecting the Bank’s exposures, risk concentrations, stress test results, utilizations of limits, etc. are reviewed on a regular basis. Appropriate actions are taken when needed, including revising the market risk management policies and relative limits to ensure that the Bank’s market risk management objective is met.

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase because of changes in market interest rates. In practice, management resets interest rates on certain financial assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement that sets forth the new interest rate.

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Notes to the Financial Statements (continued) for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

33. Market risk (continued)

The table below discloses weighted average effective interest rates for interest-bearing assets and liabilities as at 31 December:

	2021			2020		
	Weighted average interest rate, %			Weighted average interest rate, %		
	UAH	USD	EUR	UAH	USD	EUR
Interest-bearing assets						
Cash and cash equivalents – deposit certificates issued by the National Bank of Ukraine	8.2	-	-	5.7	-	-
Loans and advances to customers	15.9	9.1	-	18.4	9.1	-
Investments in securities	-	3.3	2.5	9.5	3.8	2.4
Interest-bearing liabilities						
Due to other banks	9.0	-	-	6.0	-	-
Demand deposits from corporate customers	2.2	-	-	1.1	-	-
Term deposits from corporate customers	9.4	2.1	2.5	5.2	-	-
Term deposits from individuals	10.8	2.0	0.1	13.1	2.5	0.1
Other borrowed funds	10.1	5.0	-	14.8	-	-
Lease liabilities	11.8	4.4	-	15.1	-	-
Subordinated debt	-	8.3	-	-	8.3	-

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of portfolios of financial instruments.

The following table presents the sensitivity to interest rate risk. Used percentage of interest rate multiplied by the value of financial assets and liabilities based, considering the tax rate, is the expected level of impact on profit/(loss) and equity.

The effect on profit or loss and equity was as follows:

	As at 31 December 2021		As at 31 December 2020	
	Interest rate +1	Interest rate -1	Interest rate +1	Interest rate -1
Impact on profit or loss before tax				
Sensitivity of financial assets	13,658	(13,658)	13,780	(13,780)
Sensitivity of financial liabilities	(14,570)	14,570	(11,270)	11,270
Net impact on profit or loss and equity	(912)	912	2,510	(2,510)

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology.

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Notes to the Financial Statements (continued)
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33. Market risk (continued)

The following table shows foreign currency financial assets and liabilities as at 31 December 2021:

	USD	EUR
Financial assets		
Cash and cash equivalents	299,750	11,690
Loans and advances to banks	135,045	6,185
Loans and advances to customers	63,095	-
Investments in securities	170,058	6,084
Total	667,948	23,959
Financial liabilities		
Customer accounts	521,772	20,693
Other borrowed funds	70,494	-
Lease liabilities	17,669	-
Other financial liabilities	38	-
Subordinated debt	54,637	-
Total	664,610	20,693
Net foreign currency position as at 31 December	3,338	3,266

The following table shows foreign currency financial assets and liabilities as at 31 December 2020:

	USD	EUR
Financial assets		
Cash and cash equivalents	326,854	18,346
Loans and advances to banks	9	-
Loans and advances to customers	68,101	-
Investments in securities	63,661	3,430
Total	458,625	21,776
Financial liabilities		
Customer accounts	388,887	17,457
Subordinated debt	56,632	-
Other liabilities	1	1,737
Total	445,520	19,194
Net foreign currency position as at 31 December	13,105	2,582

Assets and liabilities in other foreign currencies are not material.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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33. Market risk (continued)

The following table details the Bank’s sensitivity to a 10% increase and decrease in UAH against relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. This analysis is based on the year-end position and assumes that all other variables, in particular interest rates, remain constant. Effect on profit or loss (net of income tax) and equity as at 31 December is as follows:

	2021		2020	
	+10%	-10%	+10%	-10%
USD	(274)	274	(1,075)	1,075
EUR	(268)	268	(212)	212

34. Capital risk

Capital risk is the risk that the Bank has insufficient capital resources to meet the minimum regulatory requirements in all jurisdictions where regulated activities are undertaken, to support its credit rating and to support its growth and strategic options.

The Bank’s policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The NBU in its capacity of the principal regulator of the Bank sets forth capital adequacy ratios and monitors their compliance by the Bank.

- (a) **Capital risk management.** As with liquidity and market risks ALCO is responsible for ensuring the effective management of capital risk throughout the Bank. Specific levels of authority and responsibility in relation to capital risk management have been assigned to the appropriate committees.
- (b) **Regulatory requirement.** Under current capital requirements set by the NBU, the Bank has to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2021 and 2020, the minimum level required by the NBU is 10%.

As at 31 December 2021 and 2020, the Bank complied with the NBU requirements on capital adequacy.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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34. Capital risk (continued)

The regulatory capital of bank as at 31 December 2021 and 2020 is presented in the following table:

	2021	2020
<i>Tier 1 capital</i>		
Issued capital	310,000	310,000
Calculated loss of the current year	(59,937)	(20,542)
Other reserve funds of the Bank	9,851	9,821
Intangible assets	(7,234)	(5,234)
Total Tier 1 capital	252,680	294,045
<i>Tier 2 capital</i>		
Subordinated debt	54,557	56,549
Calculated profit of current year	-	-
Total Tier 2 capital	54,557	56,549
Total regulatory capital	307,237	350,594

35. Fair value of financial instruments

All financial instruments as at 31 December 2021 and 2020 were carried at amortized cost.

As at 31 December 2021 and 2020, the fair values of all financial assets and liabilities were estimated to approximate their carrying values due to their short-term nature and/or market interest rates at the period-end. All cash and cash equivalents and investments in securities were categorized within Level 1 of fair value hierarchy. All other financial instruments were categorized within Level 3 of fair value hierarchy. There were no transfers between the levels during the years ended 31 December 2021 and 2020.

Methods of valuation include models for estimating net present value presenting and discounting cash flows, as well as other valuation models. The judgments and data used for the assessment include risk-free and interest-bearing interest rates, credit spreads, and other adjustments used to estimate discount rates, quotations of subordinated bonds of other banks, exchange rates, as well as expectations of possible changes in prices and their comparison. The valuation methods are intended to determine the fair value of a financial instrument at the reporting date that would have been determined by independent market participants.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

36. Contingencies and other commitments

- (a) **Litigation procedures.** In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations and, accordingly, no provision has been made in these financial statements.

According to the results of the inspection of the State Fiscal Service of Ukraine (hereinafter, the “SFS of Ukraine”), on 25 April 2018, the SFS of Ukraine issued a tax notice regarding reducing the amount of the tax losses carried forward by UAH 25,045 thousand and additional accrual of income tax on non-resident income in the amount of UAH 1,177 thousand. On 2 July 2018, the Bank filed an administrative claim to the Kyiv District Administrative Court aimed at cancelling the tax notice. The court satisfied the claim and ruled in favor of the Bank. On 15 January 2019, the Sixth Administrative Court of Appeals, having considered the appeal filed by the SFS of Ukraine against the court ruling of first instance, left the decision of the court of first instance unchanged in favor of the Bank. On 12 February 2019, the Administrative Cassation Court opened the cassation proceedings under the cassation appeal of the SFS of Ukraine against the decision of the Kyiv District Administrative Court and the Sixth Administrative Court of Appeals. The date of the appeal hearings has not been determined yet. The Bank’s management estimates the probability that the Administrative Cassation Court will rule against the Bank as unlikely, therefore, the financial statements of the Bank do not provide any provision for the tax notice mentioned above.

- (b) **Taxation contingencies.** The taxation environment in Ukraine is characterized by the complexity of tax administration, contradictory interpretation of legislation by tax authorities, which inter alia may increase fiscal pressure on taxpayers. Inconsistent application, interpretation and enforcement of tax legislation may lead to legal proceedings, which accordingly may bring about the collection of additional taxes, fines and penalties, the amounts of which may be substantial. In view of the current economic and political issues, the government has been considering the implementation of certain reforms in the tax system of Ukraine.

On 23 May 2020, there came into force the Law, which significantly amended the Tax Code of Ukraine, having introduced most of measures stipulated by of the Base Erosion and Profit Shifting (BEPS) Action Plan, into the local tax legislation. The new Law introduced the following amendments, including but not limited to:

- Provisions, which allow taxation of undistributed income of a Controlled Foreign Company (the CFC) at the level of a tax resident of Ukraine who owns (controls) this CFC. If a CFC is not subject to tax exemption according to the Law, undistributed income of the CFC shall be subject to personal income tax or corporate income tax at the level of the controller (a tax resident of Ukraine that owns or controls the CFC). If a private individual or business entity (resident of Ukraine) meets the statutory criteria of a controller, the CFC’s income shall be included in the annual income of such controller (according to the ownership ratio) and presented in the annual tax return. A tax rate of 18% shall be applied to the CFC’s undistributed income. Distributed income of a CFC, in turn, may be subject to taxation at the rate of 18% or 9% depending on the period of distribution. The rate of 9% shall be applied if the controller receives the CFC’s income before filing the CFC Report and adding the specified part of income to the total taxable income, or before the end of the second calendar year following the reporting one. The rate of 18% shall be applied if the distribution is made at a later date. The first reporting period for the CFC is 2022.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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36. Contingencies and other commitments (continued)

- Business purpose test and beneficial ownership criteria for tax treaty purposes. If the tax authority determines that the main purpose of the transaction is to obtain benefits under the tax treaty, it may disallow to apply the reduced tax rate set out in the tax treaty. Beneficial ownership criteria have been developed, including the following:
 - the recipient of income shall have the right to receive such income;
 - the recipient of income shall have the unlimited right to dispose of the income received;
 - the recipient of income shall not be an agent, nominee or intermediary in relation to such income (specifically, the recipient of income performs separate functions, bears commercial risks, has sufficient economic substance (the presence of employees, free disposal of a bank account, office, postal address, telephone, fax, etc.)).

In addition, for the purposes of determining the beneficial owner of income, a new approach has been introduced, according to which, if a non-resident is an immediate recipient of Ukraine-source income but is not a beneficial owner of such income, then it is allowed to apply tax treaties (conventions) of Ukraine signed with the country the resident of which is an actual (ultimate) beneficial recipient of such income.

- The mutual agreement procedure, which allows to resolve tax disputes under tax treaties, if a resident or non-resident of Ukraine believes that the actions or decisions of tax authorities (either Ukrainian or foreign) have caused or can lead to taxation that does not comply with the relevant tax treaty.
- New “thin capitalization” rules, which apply to transactions with both related and unrelated person starting 01 January 2021. According to these innovations, if the company’s debt attributable to non-residents is 3.5 times greater than its equity, then only a part of the company’s interest expenses, which is equal to 30% of (tax) EBITDA, can be attributed to tax expenses. The remaining amount of interest expenses can be carried forward to reduce the taxable amount in future periods, but it will be subject to an annual 5% disallowance.
- Three-tiered transfer pricing reporting (TPR), which introduces additional requirements for multinational enterprises to prepare a master file (MF) and a country-by-country report (CbCR), revenue thresholds for reporting: EUR 50 million for master files, EUR 750 million for CbC reports. The first reporting period is 2021.
- An increase of the financial result before taxation by 30% of the value of goods and services, which are sold for the benefit of residents registered in “low-tax” jurisdictions (i.e., non-residents that are subject to taxation within countries with a much lower corporate income tax rate than the Ukrainian tax rate of 18%) and/or which have one of specific organizational forms.
- The introduction of the “business purpose” criterion, which gives the right to appeal transactions, subject to justified circumstances indicating the lack of a genuine economic reason (“business purpose”) for their execution. It applies from 23 May 2020 to 31 December 2021 as the right to appeal (exclude) expenses incurred in the course of any transactions with non-residents, subject to the justified lack of a “business purpose”, and from 1 January 2022 – in an amended edition. This rule will apply to transactions with “low-tax” non-residents, as well as royalty payments to non-residents of Ukraine.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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36. Contingencies and other commitments (continued)

- The concept of “constructive” dividends, effective as of 2021, which introduces the taxation of a number of payments treated as dividend-equivalent payments. Such transactions include any monetary/non-monetary payments to shareholders related to the distribution of net profit, transfer pricing adjustments, any other payments to non-resident shareholders related to the reduction in the shareholders' equity, buyout of shares, shareholder's withdrawal or any another similar transaction between a legal entity and its shareholder, which leads to a decrease in undistributed income.

At the end of 2021, the Verkhovna Rada adopted Draft Law No. 5600 on Amendments to the Tax Code of Ukraine and some legislative acts of Ukraine to balance of the budget revenues. Amendments to the Tax Code will come into effect on 01 January 2022. The Draft Law introduced the following amendments, including but not limited to:

- Restrictions on the use of tax losses. Starting from 2022, a limit is established for accounting for tax losses by major income taxpayers in the amount of 50% of the losses reported for the previous year. At the same time, if the negative value of the taxable amount for the previous years does not exceed 10 percent of the positive value of the taxable amount for the reporting period, the taxpayer has the right to reduce the financial result before taxation for this tax (reporting) period in full. The restriction applies to major taxpayers.
- Prohibition on the recognition of expenses for the amount of the irrevocable financial aid provided. It is disallowed to recognize tax expenses for the amount of irrevocable financial aid (goods, services) provided to a related person, if the recipient declared tax losses in the previous reporting year.
- The period for attributing the VAT amount to tax credit is significantly reduced. The period during which the taxpayer has the right to attribute VAT amounts to tax credit is shortened (365 days against 1095 in the previous edition).

Further amendments to the legislation regarding the BEPS measures are expected. Such amendments would adjust some legal provisions, which quickly became controversial and rather fiscal for Ukrainian taxpayers. However, most of the previous attempts to amend the relevant legislation were unsuccessful, and therefore it is impossible to estimate the probability of introducing further changes.

On 15 March 2022, the Verkhovna Rada adopted Draft Law No. 7137-d “On Amendments to the Tax Code of Ukraine and other legislative acts of Ukraine concerning the effect of regulations for the martial law period”. The amendments take effect as of their publication and are expected to remain in force as long as continues the martial law in Ukraine.

The new Law introduced the following amendments, including but not limited to:

- Taxpayers are released from liability for failing to comply with the deadlines for payment of taxes and fees, submission of reports and tax statements (except for reporting on a single tax of 2%), registration in relevant registers of tax or excise invoices if it is impossible to submit them. Taxpayers are required to submit relevant reports within three months following the termination or cancellation of martial law in Ukraine.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
(in Ukrainian Hryvnias and in thousands)

36. Contingencies and other commitments (continued)

- During the period before the termination or cancellation of martial law in the territory of Ukraine, no tax audits are initiated, and the initiated audits are suspended. Exceptions, however, apply to desktop (i.e. virtual) audits performed to confirm VAT refunds and verify cash handling and compliance with labor laws, which will continue during the martial law period.
- Excise tax on fuel was canceled, and the VAT rate on fuel import was reduced from 20% to 7%.
- Legal entities – residents and private individuals – entrepreneurs (with an annual income of up to UAH 10 billion regardless of the number of employees), income tax payers may temporarily become tax payers of the third group to pay a single tax of 2%. It is possible to choose this tax regime starting from 01 April 2022 and for the period of martial law on the territory of Ukraine. A single tax is paid on the amount of the company’s income without taking into account expenses or other tax differences. Single tax payers of the third group applying this special tax regime are exempted from the obligation to accrue and pay VAT, and submit VAT tax returns on transactions for the supply of goods, works and services. Therefore, the single tax actually replaces corporate income tax and VAT. Losses of previous periods that reduce the taxable amount and interests accrued according to the rule of “thin” capitalization can be carried forward to the subsequent periods when the taxpayer returns to the general tax regime.
- Amounts of paid VAT in the value of goods and services can be included in the tax credit without registering tax invoices during the martial law period. At the same time, within 6 months after the termination or cancellation of martial law, taxpayers are obliged to ensure the registration of tax invoices.
- The impossibility for the state to make a budgetary VAT refund due to the introduction of martial law is not considered a debt, therefore no interests are to be accrued on such amounts. Consequently, budgetary VAT refund is likely to be significantly complicated.
- It is established that during the martial law period, goods purchased with VAT and destroyed (lost) or transferred to state or municipal ownership for the needs of defense of Ukraine during the martial law period are not considered to be used by the taxpayer in non-taxable transactions or transactions, which do not fall within economic activities of the taxpayer. Accordingly, there is no obligation for an additional VAT.
- The transfer of goods and services for the needs of defense of Ukraine is not subject to VAT.
- Owners of land plots are exempt from paying land tax and rent in areas where hostilities take place, in temporarily occupied territories or territories littered with explosive devices for the period from March 2022 to December 31 of the year following the year in which martial law is lifted;
- Payment of environmental tax for facilities located in temporarily occupied territories or military action zones has been canceled for 2022.
- In March 2022, a zero quota was introduced for the export of rye, buckwheat, millet, sugar, mineral fertilizers, cattle, cattle meat and edible salt. Exports of corn, wheat, sunflower oil, chicken, and eggs are subject to licensing. Export of gas is prohibited.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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36. Contingencies and other commitments (continued)

In the meantime, on 12 May 2022, the Verkhovna Rada of Ukraine adopted Draft Law No. 7360 “On Amendments to the Tax Code of Ukraine and other laws of Ukraine on the tax administration peculiarities of taxes, fees and single contribution during the martial law, state of emergency”, which introduces essential amendments in the administration of taxes and fees during the martial law period. On 25 May 2022, this Law was signed by the President of Ukraine and entered into force. The Law resumes the obligation to pay taxes, register tax invoices and submit reports for taxpayers who have the opportunity to fulfill this obligation in a timely manner, the possibility for the tax authorities to carry out unscheduled documentary audits and apply fines based on the results of such audits. The moratorium on fines established to prevent COVID-19 ceases to apply.

The management believes that the Bank complies with all the requirements established by of the applicable tax legislation.

- (c) **Contingent liabilities.** In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risks in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank’s maximum exposure to credit loss under contingent liabilities, in the event of non-performance by the other party, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As of 31 December 2021, the Bank’s contingent liabilities were represented by the issued avalised bills of exchange. The nominal or contractual amount of contingent liabilities and the provision for expected losses on the avalised bills of exchange as of 31 December 2021 amounted to UAH 4,754 thousand and UAH 62 thousand, respectively (31 December 2020: UAH 6,582 thousand and UAH 105 thousand).

37. Related party transactions

- (a) **Control relationships.** In accordance with the partnership agreement concluded by the fund NCH Agribusiness Partners II (hereinafter, the “Fund”), the Fund’s General Partner has the exclusive right to manage and control the Fund’s business activities. The actual responsibility for managing the Fund bears Mr. George Rohr, a US citizen, and Mr. Moris Tabacinic, a citizen of Austrian Republic. As at 31 December 2021 and 2020, the ultimate controlling parties (controllers) of the Bank were represented by Mr. George Rohr and Mr. Moris Tabacinic.

Terms and conditions of transactions with related parties are established at the time of the transaction.

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2021
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37. Related party transactions (continued)

(b) **Transactions with related parties.** The table below discloses balances with related parties as at 31 December:

	2021	2020
Balances with entities under common control		
Loans and advances to customers	40	-
Customer accounts	474,473	369,617
Other financial assets	-	19
Other financial liabilities	-	144
Balances with the Parent		
Due to other banks	70,497	-
Subordinated debt (Note 17)	54,637	56,632
Other financial liabilities	28	28
Balances with key management personnel		
Loans and advances to customers	9	-
Other non-financial liabilities	2	-
Customer accounts	8,711	8,030
Other financial liabilities	5,719	6
Balances with other related parties		
Customer accounts	44,717	28,062
Other financial liabilities	149	16

The table below comprises the results of transactions with related parties for the years ended 31 December:

	2021	2020
Transactions with entities under common control		
Interest income	722	496
Interest expense	(1,416)	(3,552)
Commission income	31,064	24,394
Other administrative and operational expenses	(1,269)	(1,257)
Transactions with the Parent		
Interest expense	(6,471)	(4,513)
Other operating expense	(109)	(111)
Net profit (loss) from foreign currency revaluation (Notes 17, 18)	(3,926)	9,358
Transactions with key management personnel		
Interest income	1	-
Interest expense	(123)	(165)
Commission income	16	31
Employee benefits expense	(29,177)	(26,626)
Transactions with other related parties		
Interest expense	(1,733)	(952)
Commission income	58	69

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Notes to the Financial Statements (continued)
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38. Events after the reporting period

Repayment of funding. In January 2022, the Bank partially repaid a short-term loan denominated in UAH in the amount of UAH 48,921 thousand, which was attracted in April 2020. In September 2022, the Bank partially repaid a short-term synthetic loan denominated in UAH in the amount of UAH 48.921 thousand, which was attracted in April 2020. In September 2022, the last tranche of this loan was repaid in the amount of UAH 48.921 thousand. A synthetic loan in UAH in the amount of EUR 5 million from an International Financial Institution was repaid in full.

In July 2022, the Bank fulfilled its obligations at a loan from the NBU in the amount of UAH 12.789 thousand in connection with existing liquidity and a significant increase in rates on loans of the National bank of Ukraine.

Military invasion. On 21 February 2022, Russia recognized the occupied territories in the Luhansk and Donetsk regions as independent republics and on 24 February 2022 began an armed invasion to Ukraine, which led to a full-scale war throughout Ukraine. The current military attack led, and continues to lead, to significant destruction of infrastructure, displacement of a large number of people and disruption of economic activity in Ukraine.

The Government and the National Bank continue to take a number of measures to mitigate the negative impact of the war. During the wartime period, taxes were reduced, some bureaucratic procedures were simplified, banks were stable and support was organized to move civilians and industries to safer regions.

However, there is already good news. Production is resuming, a marine corridor for the export of agricultural products is opened, and comforting news comes from the front. Ukraine continues to receive significant military and economic support from the most powerful countries in the world. According to forecasts of the NBU, with the completion of the active phase of hostilities by the end of this year and the complete unlocking of seaports, the economy will begin to recover in the following years and will grow at the level of 5-6% per year.

Further developments cause a high level of uncertainty and the bank analysed the possible impact on the bank's continuous activities in Note 3.

As of the date of issue of these financial statements, the Bank continues to operate without any restrictions and controls all its assets and operations.

Litigation procedures. The Supreme Court of Ukraine finally ruled in favor of the Bank on the litigation with the State Tax Service (STS), described in Note 36 (a) and on 16 September 2022, decided: to leave the cassation complaint of the Main Directorate of the STS in Kyiv without satisfaction, the decision of the District Administrative Court of Kyiv from 10 November 2018 and the decision of the Sixth Administrative Court of Appeal from 15 January 2019 to leave unchanged. The Court order is gaining legal force from the date of its adoption and is not subject to appeal.

**JOINT STOCK COMPANY
“AGROPROSPERIS BANK”**

Supplementary Information
to the Financial Statements for the Year Ended
31 December 2021 (Unaudited)

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Appendix A Supplementary Information to the Financial Statements for the Year Ended 31 December 2021 (Unaudited)

Notes to the Supplementary Information to the Financial Statements for the Year Ended 31 December 2021 (in Ukrainian Hryvnias and in thousands)

Translation of financial information into another presentation currency

The following supplementary information is intended to present the statement of financial position of the Bank and the statement of comprehensive income, profit or loss translated from UAH to USD for the convenience of principal users.

The supplementary information in USD does not form a part of the Bank's financial statements.

For the purpose of presenting the supplementary information:

- Items in the statement of financial position are translated using the NBU's official exchange rates at the reporting date;
- Items of the statement of comprehensive income, profit or loss are translated at the annual average foreign exchange rates.

The Bank used the exchange rates of UAH against USD as at 31 December 2021 and 2020 and the annual average exchange rates for the years ended 31 December 2021 and 2020 as follows:

Currency	31 December 2021	Annual average exchange rate in 2021	31 December 2020	Annual average exchange rate in 2020	1 st January 2020
USD/UAH	27.28	27.29	28.27	26.96	23.69

JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Appendix A Supplementary Information to the Financial Statements for the Year Ended 31 December 2021 (Unaudited)

Statement of Financial Position as at 31 December 2021 (in US Dollars and in thousands)

Notes	31 December 2021	31 December 2020 (recalculated)	1 January 2020 (recalculated)
ASSETS			
Cash and cash equivalents	24,421	29,251	21,389
Loans and advances to banks	5,299	74	50
Loans and advances to customers	43,052	25,204	23,618
Investments in securities	6,457	4,913	776
Intangible assets other than goodwill	265	185	107
Property, plant and equipment	652	527	559
Right-of-use assets	966	396	672
Current income taxes prepaid	12	12	14
Deferred tax assets	-	70	92
Other financial assets	2	1	15
Other non-financial assets	197	122	105
TOTAL ASSETS	81,323	60,755	47,397
LIABILITIES			
Due to other banks	8,717	2,830	3,806
Customer accounts	43,535	32,034	19,312
Other borrowed funds	12,471	11,119	6,669
Provisions for loan commitments and financial guarantee contracts	2	4	-
Provisions for employee benefits	304	-	337
Deferred tax liabilities	16	-	-
Lease liabilities	983	378	658
Other financial liabilities	359	262	210
Other non-financial liabilities	82	81	55
Subordinated debt	2,003	2,003	2,003
TOTAL LIABILITIES	68,472	48,711	33,050
TOTAL EQUITY	12,851	12,044	14,347
TOTAL LIABILITIES AND EQUITY	81,323	60,755	47,397

PUBLIC JOINT STOCK COMPANY “AGROPROSPERIS BANK”

Appendix A Supplementary Information to the Financial Statements for the Year Ended 31 December 2021 (Unaudited)

Statement of comprehensive income, profit or loss for the Year Ended 31 December 2021 (in US Dollars and in thousands)

	Notes	2021	2020
Interest income		7,349	6,285
Interest expense		(3,116)	(3,255)
Net interest income (Net interest expense)		4,233	3,030
Commission income		1,369	1,107
Commission expense		(67)	(61)
Net commission income (Net commission expense)		1,302	1,046
Net increase (decrease) from trading in foreign currencies		287	150
Net increase (decrease) from foreign exchange translation		(58)	146
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9		(98)	(157)
Employee benefits expense		(3,167)	(2,508)
Depreciation and amortization expense		(699)	(680)
Other administrative and operational expenses		(1,378)	(1,046)
Other gains (losses)		35	48
Profit (loss) from operating activities		457	29
Tax income (expense)		(89)	(7)
Profit (loss)		368	22
Basic earnings (loss) per share to the equity holders of the bank		0.032	0.002