



JOINT-STOCK COMPANY COMMERCIAL BANK PRIVATBANK

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Procedure for the Competitive Selection of an Auditing Entity

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1 INTRODUCTION

Procedure on selection of the audit company (hereinafter - the independent auditor) applies to the following audit services:

- conducting a mandatory audit;
- review of financial statements;
- other audit services.

1.2 Procedure on selection of the audit company (hereinafter - Procedure) establishes the legal and economic principles for the procurement of audit services at the expense of JSC CB "PrivatBank" (hereinafter - the Bank / Customer).

1.3 The purpose of this Procedure is to create a fair and competitive environment in the selection of an independent auditor to provide audit services.

1.4 The Procedure determines the procedure for conducting a competitive selection of an independent auditor to provide audit services.

The Procedure is developed on the basis of the current legislation according to:

- Law of Ukraine "On Banks and Banking" (hereinafter - the Law on Banks);
- Law of Ukraine "On Audit of Financial Statements and Auditing Activities" (hereinafter - the Law on Audit);
- Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (hereinafter - the Law on Financial Reporting);
- Regulations on the procedure for submission by the bank to the National Bank of Ukraine of the audit report on the results of the annual audit of financial statements, approved by the resolution of the Board of the National Bank of Ukraine №90 dated August 2, 2018 (hereinafter - Regulations №90);
- Resolution of the Cabinet of Ministers of Ukraine dated October 2, 2019 № 859 "On the criteria for selection of the external auditor of state-owned banks" (hereinafter - Resolution of the CMU №859)
- Charter of the Bank;
- other legislative acts of Ukraine.

2 DEFINITION OF TERMS

In this Procedure terms and concepts are used in the following meaning:

audit report - a document prepared by the audited entity based on the results of the audit of financial statements (consolidated financial statements) in accordance with international auditing standards and the requirements of the Law on Audit;

audit services - audit, review of financial statements, consolidated financial statements, performance of other assurance engagements and other professional services provided in accordance with international auditing standards;

financial statement audit - an audit service to verify the accounting data and indicators of financial statements and / or consolidated financial statements of a legal entity or a representative office of a foreign entity or other entity that submits financial statements and consolidated financial statements of the group, in order to express the auditor's independent opinion on its compliance in all material respects with the requirements of national accounting regulations (standards), international financial reporting standards or other requirements;

audit firm - a legal entity that conducts exclusively auditing activities and / or provides non-audit services on the grounds and in the manner prescribed by the Law on Audit and international auditing standards;

customer of audit services - a division of the Bank, which in accordance with the requirements of the legislation or by the decision of the Bank's management, has to receive audit services;

qualification requirements - requirements in accordance with the norms of the Laws of Ukraine on Banks, on Audit, on Financial Reporting, Regulation №90;

competition - selection of an independent auditor to provide audit services in accordance with certain criteria and procedures;

competitive documentation - mandatory documents that have to contain the competitive proposal of the contestant;

mandatory audit of financial statements - audit of financial statements (consolidated financial statements) of economic entities that are required by law to disclose or provide financial statements (consolidated financial statements) to users of financial statements together with the audit report conducted by entities auditing activities on the grounds and in the manner prescribed by the Law on Audit;

announcement - information notice on the beginning of the competitive selection of an independent auditor;

review of financial statements - an audit service that examines the auditor's ability to reach an opinion on whether a fact has been drawn to the conclusion that any interim financial information has not been prepared in all material respects in accordance with the applicable conceptual of financial reporting;

enterprises of public interest - enterprises - issuers of securities whose securities are admitted to trading on stock exchanges or in respect of which a public offer has been made, banks, insurers, private pension funds, other financial institutions (except for other financial institutions and private pension funds belonging to microenterprises and small enterprises) and enterprises that according to the Law on Financial Reporting belong to large enterprises;

applicant - an auditing entity who has expressed a desire to participate in the competition;

auditing entity - an audit firm or auditor that correspond to the following criteria: conducts auditing activities as a private entrepreneur or conducts independent professional activity; acquired the right to conduct auditing activities on the grounds and in the manner prescribed by this Law; included in the Register of auditors and audit entities as an audit entity. It is not allowed to provide the Bank with mandatory audit services of financial statements by an audit

entity that conducts auditing activities as a private entrepreneur, in accordance with article 70 of the Law on Banks.

contestants - auditing entities that have submitted competitive offers to the Bank and that correspond to the qualification requirements.

Other terms used in this Procedure are used in the meanings defined by the laws of Ukraine, regulations of the National Bank of Ukraine and International Auditing Standards.

3 STAGES OF COMPETITIVE SELECTION OF INDEPENDENT AUDITOR

Stage 1: Preparation of the announcement by the customer of audit services. The announcement is concurred by the Management Board, approved by the Audit Committee and posted on the official website of the Bank on the Internet <https://privatbank.ua> in the section "Other" - "Financial statements" at the link <https://privatbank.ua/about/finansovaja-otchetnost>. The information specified in the announcement is described in Section 4 of this Procedure.

Stage 2: Acquaintance of applicants with the Bank's competitive documentation, answers to applicants' inquiries (if necessary).

Stage 3: Submission of commercial offers by applicants. Applicants who correspond to the requirements described in Section 5 of this Procedure become contestants.

Stage 4: Evaluation of commercial offers of the contestants for compliance with the criteria described in Section 6 in this Procedure and negotiations (if necessary).

Stage 5: Preparation of information on the results of the competition for consideration by the Management Board and the Audit Committee of the Supervisory Board. If less than two commercial offers are received as a result of the competitive selection, the Audit Committee of the Supervisory Board must recognize the competition as having been failed and announce a new competition. The announcement of a new competition is made in accordance with Stage 1 of Section 3 of this Procedure.

Stage 6: Based on the results of consideration and evaluation of competitive and price offers, the Audit Committee of the Supervisory Board submits substantiated recommendations on the appointment of the audited entity and their submission to the Supervisory Board. Relevant recommendations should include at least two offers for the selection of audit entities and a report on the conclusions of the selection procedure. The results of quality control of services provided by audit entities participating in the competition are considered.

Stage 7: Selection and approval of the winner of the competition by the Supervisory Board of the Bank.

Stage 8: Informing the winner of the competition. The Bank sends an official (electronic) letter approved in PrivatDok to the winner of the competition.

Stage 9: The Bank publishes the results of the competitive selection on the Bank's official page on the Internet privatbank.ua in the section "Other" - "Financial reporting" at the link <https://privatbank.ua/about/finansovaja-otchetnost>.

After Stage 9, the competition is considered completed.

After Stage 8, the Bank, within two months, but no later than October 31 of the year for which the mandatory audit of financial statements will be conducted, concludes a contract with the winner of the competition. The essential terms of the contract are concurred by the Management Board, the Audit Committee of the Supervisory Board and approved by the Supervisory Board.

Aspects of further work with the winner of the competition:

- if the auditing entity is elected an independent auditor of the bank for a period of more than 1 year, (i) the contract is concluded on an annual basis; and (ii) prior to the signing of the contract for the second and each subsequent years, the winning audit firm has to annually confirm compliance with the qualification requirements, the requirements of the selection criteria, and the absence of prohibitions and restrictions established by the current legislation of Ukraine.

4 CREATION OF ANNOUNCEMENT

Minimum list of information specified in the announcement (the announcement template is given in Appendix 1):

- tasks for conducting audit procedures in accordance with International Standards on Auditing (ISA) for a certain calendar period and providing reports taking into account the requirements of legislation, regulations of the National Bank of Ukraine and decisions of the National Commission on Securities and Stock Market;
- terms (deadlines) for the audit task;
- criteria for selection of an independent auditor;
- list of information to be contained in the competitive offer;
- deadline and method of submitting competitive offers.

5 QUALIFICATION REQUIREMENTS FOR APPLICANTS FOR PARTICIPATION IN THE COMPETITION

To become a contestant in the competition, the applicant has to meet the following requirements:

5.1 In accordance with sub-clause 21 of part 1 of article 1 of the Law on Audit, it meets the criteria for determining the subject of audit activity, namely:

- carry out independent professional activity;
- acquired the right to conduct auditing activities on the grounds and in the manner prescribed by this Law;
- included in the Register of auditors and audit entities as an audit entity.

5.2 According to article 5 of the Law on Audit:

- the total share of the founders (participants) of the audit firm, who are not auditors and / or audit firms, in the authorized capital does not exceed 30 percent;
- the official who, in accordance with the constituent documents, manages the audit firm, is only the auditor;
- the head of the audit firm is not the head of another legal entity that carries out business activities by types that are incompatible with the audit activities;
- an audit firm of a foreign state conducts audit activities on the territory of Ukraine, subject to its admission to audit activities in accordance with the national legislation of the country of origin of such audit firm, if the key partner of this firm will audit legal entities, representative offices of foreign entities an entity registered in Ukraine corresponds to the requirements of this Law to the auditor, the compliance of the audit firm with the requirements specified by this Law, as well as after its inclusion in the Register of auditors and audit entities.

5.3 According to article 43 of the Law on Audit, there is a valid contract of civil liability insurance of an audit entity to third parties, concluded in accordance with the standard form of insurance contract approved by the National Bank of Ukraine in agreement with the Public Oversight Audit Authority.

5.4 According to part 4 of article 4 of the Law on Audit, the auditor has no outstanding or unresolved conviction or no administrative penalty for corruption-related offenses during the last year, as well as no application of penalties in the form of penalties during the last year exclusion from the Register of auditors and auditing entities for submission of unreliable information to the Register of auditors and auditing entities.

5.5 According to article 10 of the Law on Audit, the provision of audit services is prohibited if the auditor, the audit entity, its key audit partners, its owners (founders, participants), officials and employees and other persons involved in the provision of such services, as well as close relatives and family members of these persons:

- 1) are owners of financial instruments issued by a legal entity whose financial statements are subject to audit, or a legal entity related to such legal entity by joint ownership, control and management, except for those owned by such legal entity indirectly through mutual investment institutions;
- 2) participate in transactions with financial instruments issued, guaranteed or otherwise supported by a legal entity whose financial statements are subject to audit, except for transactions within mutual investment institutions;
- 3) were during the periods specified in part one of this article, in employment, contractual or other relations with a legal entity, the financial statements of which are subject to audit, which may lead to a conflict of interest.

5.6 According to part 4 of article 6 and part 4 of article 27 of the Law on Audit, an audit entity may not provide statutory audit services for financial statements if it has provided (including that belonging to the audit network, other participants of which provided) during the reporting period of the audited financial statements, services with:

- 1) preparation of tax reporting, calculation of mandatory fees and charges, representation of legal entities in disputes on these issues;
- 2) consulting on management, development and support of management decisions;
- 3) accounting and preparation of financial statements;
- 4) development and implementation of procedures for internal control, risk management, as well as information technology in the financial sector;
- 5) providing legal assistance in the form of: legal counseling services to ensure the conduct of business activities; conducting negotiations on behalf of legal entities; representation of interests in court;
- 6) staffing of legal entities in the field of accounting, taxation and finance, including services for the provision of personnel who make management decisions and are responsible for the preparation of financial statements;
- 7) evaluation services (taking into account part 4 of article 6 of the Law on Audit);
- 8) services related to attracting financing, profit distribution, development of investment strategy, except for services to provide confidence in financial information, in particular the procedures necessary for the preparation, discussion and issuance of letters of confirmation in connection with the issue of legal securities persons.

5.7 According to part 3 of article 27 of the Law on Audit, if a member of the audit network to which the audited entity providing statutory audit services of the Bank's financial statements belongs provides the services specified in part four of article 6 of the Law on Audit to a nonresident, which is the parent company and / or a subsidiary of the Bank, such audit entity shall, in this regard, assess the threats to independence. An auditing entity may continue to perform the statutory audit of the Bank's financial statements only if it can be demonstrated that the provision of services by a member of the audit network to the parent company (non-resident) and / or a subsidiary (non-resident) of the Bank does not affect the independence of the entity, its professional judgment and audit report.

5.8 According to part 3 of article 29 of the Law on Audit, the competition is open to audit entities in which for the previous annual reporting period the amount of remuneration from each of the public interest entities that were provided with services for mandatory audit of financial statements during this period, did not exceed 15 percent of the total amount of income from the provision of audit services and which do not have restrictions related to the duration of the provision of services to this company.

5.9 According to paragraph 14 of Section II of Regulation №90, the auditing entity has to be able to rotate the auditors involved in the audit of the Bank's financial statements.

5.10 According to Article 70 of the Law of Ukraine on Banks, the Bank has the right to enter into agreements for audits of annual financial statements, consolidated financial statements with the same audit firm for no more than seven consecutive years.

6 SELECTION CRITERIA

To continue participating in the competition, the independent auditor must correspond to the following criteria:

- inclusion of the auditing entity in the section of the Register of auditors and auditing entities, which gives the right to conduct a mandatory audit of the financial statements of public interest entities;
- absence of the audited entity included, its head and / or auditors of any penalties applied during the last three years by the body that regulates / regulated the audit activity;
- the auditor does not have an existing and / or potential conflict of interest and threats to independence in the provision of audit services;
- the auditing entity has at least five years of experience in conducting a mandatory annual audit of the financial statements of state-owned banks of Ukraine and / or systemically important banks, the list of which is determined by the National Bank;
- failure to apply special economic and other restrictive measures to the auditing entity, owners of its significant participation or related persons during the last 12 months by Ukraine and / or foreign member states of the Organization for Economic Cooperation and Development and / or the European Union.

7 THE PROCEDURE FOR SUBMISSION OF DOCUMENTATIONS AND COMPETITIVE OFFERS BY APPLICANTS. THE REJECTION OF THE APPLICANTS COMPETITIVE OFFERS

7.1 To participate in the competition, applicants submit the documents specified in the announcement. If necessary, the Bank may contact the applicant for additional information.

7.2 All documents are submitted in Ukrainian under the signature of the authorized person of the audited entity. Additionally, the commercial proposal letter is submitted in English. Copies of documents submitted as part of the competitive documentation must be certified by the signature of the authorized person and the seal (if available).

7.3 The applicant has the right to make changes or withdraw its competitive offer before the deadline for submission of competitive offers. Each applicant has the right to submit only one competitive offer, which cannot be changed after the deadline for submission of competitive offers.

7.4 The Bank has the right to reject applicants competitive offers if there are the following grounds (quality criteria):

- the auditing entity does not correspond to the requirements specified in this Procedure and / or announcement;

- the audited entity indicated inaccurate information in the documentation submitted to the Bank;
- the competitive offer was submitted by the contestant after the deadline for submission of competitive offers;
- terms (deadlines) for the audit task do not correspond to the requirements of the Bank.

The Bank has the right to reject the competitive offers of applicants if there are other grounds provided by applicable law.

Applicants whose competitive offers have been rejected by the Bank are not allowed to participate in the tender.

8 FINAL PROVISIONS

The Procedure is posted on the official website of the Bank <https://privatbank.ua> in the section "Other" - "Financial statements" at the link <https://privatbank.ua/about/finansovaja-otchetnost>.

The Procedure is updated in case of changes in legislation that affect the relevance of the Procedure.

The Procedure is considered by the Management Board and approved by the decision of the Supervisory Board.

Before considering the Procedure by the Board, the project is subject to concur by:

- Head of the Direction of legal support,
- Head of Compliance,
- Deputy Chairperson of the Management Board (Chief Finance Officer).

The Procedure shall enter into force from the date of its approval by the Supervisory Board.

Template Announcement of competitive selection of an independent auditor for conducting audit procedures

JSC CB "PrivatBank" (hereinafter - the Bank) invites audit firms to participate in the competition for the selection of an independent auditor to conduct (specify the necessary audit procedures) (hereinafter - the Competition).

Audit firms are invited to participate in the Competition, which:

- (the list of obligatory criteria of selection of audit firm is specified)

Tasks include:

- (indicate the list of audit services to be provided, as well as the terms (deadlines) of the audit task (provision of audit services))

Information submitted by the contestant:

- Commercial offer, which contains a list of procedures and actions that will be carried out during the provision of audit services, terms (deadlines) for the provision of audit services, the cost of audit services and payment terms;
- *(additional documents and information submitted by the contestant are indicated)*

Competition schedule:

(the term of carrying out of the Competition and submission of competitive offers, and also a way of submission of competitive offers is specified)

Contact person:

(indicate the name and telephone number of the contact person from the Bank)

The announcement can be supplemented by any other information necessary to determine the winner of the competition and / or that should or must be communicated to potential contestants of the competition.