JSC «BANK CREDIT DNEPR»
Financial Statements

for the year ended December 31, 2022,
with Independent Auditors' Report

Translation from Ukrainian original

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Translation from Ukrainian original

Statement of responsibilities of management for preparation and approval of financial statements for the year ended December 31, 2022

The statement here below, which should be read in conjunction with description of independent auditor's responsibilities, contained in attached Independent Auditor's Report, is presented to separate responsibilities of management and those of independent auditor in relation to financial statements of Joint Stock Company "BANK CREDIT DNEPR" (hereinafter – the Bank)-.

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2022, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- proper selection and application of accounting policies;
- use of justified estimates and assumptions;
- compliance with requirements of IFRSs or disclosure and explanation of all material departures from IFRSs in financial statements;
- preparation of financial statements of the Bank based on assumption that the Bank will continue as a going concern, except for cases, when the assumption is not justified.

Management of the Bank is responsible for:

- design, implementation, and maintenance of effective and sound system of internal controls throughout the Bank;
- keeping of adequate accounting records that are sufficient to show and explain the Bank's financial position which enable them to ensure that the financial statements of the Bank comply with IFRS;
- compliance of accounting with laws and accounting standards applicable in Ukraine;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- detection and prevention of fraud and other irregularities.

The financial statements for the year ended on December 31, 2022, were signed on behalf of the Management Board by:

Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

April 12, 2023

STATEMENT OF FINANCIAL POSITION

as at December 31, 2022

(UAH’000)

	Note	*2022*	*2021*
Assets			
Cash and cash equivalents	7	11 629 652	6 112 078
Due from other banks	8	110 459	1 173 449
Loans and advances to customers	9	3 867 013	5 714 269
Investments in securities	10	2 080 296	5 541 887
Derivative financial assets		516 561	97 014
Investment property	11	236 800	484 900
Deferred tax assets	15	269 437	250 380
Intangible assets		61 747	59 021
Fixed assets		338 999	368 660
Other financial assets	12	4 814	334 996
Other non-financial assets	12	239 633	224 978
Non-current assets held for sale	16	463	16 526
Total assets		**19 355 874**	**20 378 158**
Liabilities			
Due to banks	17	1 145 745	3 908 589
Due to customers	18	16 310 141	14 484 296
Provisions	19	44 227	35 356
Other financial liabilities	20	152 482	125 030
Other non-financial liabilities	20	17 812	32 049
Income tax	15	20	-
Total liabilities		**17 670 427**	**18 585 320**
Equity	22		
Share capital		3 586 561	3 586 561
Accumulated deficit		(1 952 778)	(1 902 767)
Share premium		17 469	17 469
Reserves and other funds		60 768	4 141
Revaluation reserves		(26 573)	87 434
Total equity		**1 685 447**	**1 792 838**
Total liabilities and equity		**19 355 874**	**20 378 158**

Signed on behalf of the Management Board on April 12, 2023.

Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended on December 31, 2022

(UAH'000)

	Note	*2022*	*2021*
Interest income	23	2 039 521	1 429 326
Interest expense	23	(1 199 374)	(625 459)
Net interest income		**840 147**	**803 867**
Commission income	24	213 588	263 931
Commission expense	24	(94 801)	(91 423)
Net commission income		**118 787**	**172 508**
Other income	25	54 788	865 308
Net income from transactions with financial instruments at fair value through profit or loss		512 757	118 466
Net income (loss) from transactions with debt instruments at fair value through other comprehensive income		(25 369)	13 588
Net income from currency transactions		147 534	74 584
Net loss from currency revaluation		(11 596)	(2 801)
Net loss from revaluation of investment property		(188 620)	(126 880)
Losses at initial recognition of financial assets at interest rate above or below the market rate		-	(578)
Allowance for expected credit losses for financial instruments		(729 819)	(671 548)
Other gains (losses)	26	10 220	(69 019)
Labor remuneration		(459 655)	(389 405)
Depreciation and amortization		(58 658)	(69 309)
Administrative and other operating expenses	27	(202 004)	(218 824)
Income (loss) from derecognition of financial assets at amortized cost		4 100	77 489
Profit before tax		**12 612**	**577 446**
Income tax expense	15	(5 996)	(11 177)
Profit for the year		**6 616**	**566 269**

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(continued)

for the year ended on December 31, 2022

(UAH'000)

	Note	*2022*	*2021*
Other comprehensive income:			
Items not to be reclassified into profit or loss after taxes:			
Revaluation of fixed assets	22	6 122	1 260
Other comprehensive income not to be reclassified to profit or loss after taxes		**6 122**	**1 260**
Items to be reclassified into profit or loss after taxes:			
Revaluation of debt financial instruments	22	(123 756)	(8 437)
Realised gains from securities at fair value through other comprehensive income reclassified to profit or loss	22	3 627	(13 569)
Total other comprehensive income to be reclassified into profit or loss after taxes		**(120 129)**	**(22 006)**
Total other comprehensive income		**(114 007)**	**(20 746)**
Total comprehensive income for the year		**(107 391)**	**545 523**
Net earnings per share:			
Net basic earnings per share (measured in UAH per share)	28	-	0,16

Signed on behalf of the Management Board on April 12, 2023.

Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

STATEMENT OF CHANGES IN EQUITY

for the year ended on December 31, 2022

(UAH'000)

	Share capital	*Reserves and other funds*	*Share premium*	*Revaluation reserves*	*Accumulated deficit*	*Total equity*
January 1, 2021	**3 586 561**	**-**	**17 469**	**108 180**	**(2 464 895)**	**1 247 315**
Profit for the year	-	-	-	-	566 269	566 269
Other comprehensive income	-	-	-	(20 746)	-	(20 746)
Total comprehensive income for the year	**-**	**-**	**-**	**(20 746)**	**566 269**	**545 523**
Allocation of profit of previous years: transfer to reserve fund	-	4 141	-	-	(4 141)	-
December 31, 2021	**3 586 561**	**4 141**	**17 469**	**87 434**	**(1 902 767)**	**1 792 838**

	Share capital	*Reserves and other funds*	*Share premium*	*Revaluation reserves*	*Accumulated deficit*	*Total equity*
January 1, 2022	**3 586 561**	**4 141**	**17 469**	**87 434**	**(1 902 767)**	**1 792 838**
Profit for the year	-	-	-	-	6 616	6 616
Other comprehensive income	-	-	-	(114 007)	-	(114 007)
Total comprehensive income for the year	**-**	**-**	**-**	**(114 007)**	**6 616**	**(107 391)**
Allocation of profit of previous years: transfer to reserve fund	-	56 627	-	-	(56 627)	-
December 31, 2022	**3 586 561**	**60 768**	**17 469**	**(26 573)**	**(1 952 778)**	**1 685 447**

Signed on behalf of the Management Board on April 12, 2023.

Chairman of the Management Board — Sergii Panov

Deputy Chairman of the Management Board — Sergiy Volkov

Chief accountant — Ruslan Chudakivsky

STATEMENT OF CASH FLOWS

for the year ended on December 31, 2022

(UAH'000)

	Note	*2022*	*2021*
Operating cash flows			
Interest income received		1 973 363	1 359 382
Interest expense paid		(1 148 021)	(608 241)
Commission income received		212 640	263 463
Commission expense paid		(94 586)	(91 348)
Transactions with financial instruments at fair value through profit or loss		93 303	74
Results of transactions with securities at fair value through other comprehensive income		(25 369)	13 588
Transactions with foreign currencies		147 534	74 584
Other operating income received		26 956	950 743
Provisions utilisation		(61)	(21)
Employee cost paid		(445 332)	(383 830)
Administrative and other operating expenses paid		(160 575)	(217 567)
Operating cash flows before changes in operating assets and liabilities		**579 852**	**1 360 827**
Changes in operating assets			
Due from other banks		1 246 264	(228 629)
Investments in securities (at fair value through profit or loss)		5 060	512 105
Loans and advances to customers		1 755 654	(3 222 641)
Other financial assets		309 455	(285 307)
Other non-financial assets		9 732	11 350
Non-current assets held for sale		26	28 315
Due to banks		(2 905 876)	1 952 750
Due to customers		(591 255)	5 186 056
Other financial liabilities		8 183	4 297
Other non-financial liabilities		(13 998)	10 039
Net operating cash flows		**403 097**	**5 329 162**
Investing cash flows			
Purchase of securities		(1 428 581)	(7 739 540)
Proceeds from sale of securities		4 611 685	5 676 525
Purchase of fixed assets		(14 301)	(16 760)
Purchase of intangible assets		(8 551)	(39 754)
Proceeds from sale of investment property		58 385	600 267
Dividends received		-	36
Net investing cash flows		**3 218 637**	**(1 519 226)**
Financing cash flow			
Lease-related liabilities		(16 527)	(25 262)
Net financing cash flow		**(16 527)**	**(25 262)**
Effect of exchange rate changes on cash and cash equivalents		1 923 151	(13 082)
Effect of expected credit losses on cash and cash equivalents		(10 784)	785
Net increase of cash and cash equivalents		**5 517 574**	**3 772 377**
Cash and cash equivalents, opening balance	7	**6 112 078**	**2 339 701**
Cash and cash equivalents, closing balance	7	**11 629 652**	**6 112 078**

Signed on behalf of the Management Board on April 12, 2023.

Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

Notes on p.p. 6-61 are an integral part of these financial statements

1. Background information

Joint Stock Company "BANK CREDIT DNEPR" (the "Bank") was established on July 7, 1993, according to the decision of the General Meeting of Shareholders of the Bank and in accordance with the law of Ukraine.

The change in the legal name and organizational form of the Bank from a closed joint-stock company to a public joint-stock company was officially registered on July 16, 2009. The Bank changed the form of organization from Public Joint Stock Company "BANK CREDIT DNEPR" to Joint Stock Company "BANK CREDIT DNEPR" due to the changes in Ukrainian law in April 2018.

On December 12, 2019, the new version of the charter of the Bank was registered following increase of the authorized capital of the Bank. On January 23, 2020, the Bank received a certificate of issuance of shares for total amount of UAH 3,58 bn, so the registered and paid-in stated capital of the Bank is UAH 3,58 bn.

The Bank operates under the general banking license No 70 renewed by the National bank of Ukraine (NBU) on October 22, 2018, which allows the Bank to conduct banking operations, including foreign currency transactions. The Bank also has licenses for securities operations and custody services from the National Commission for Securities and Stock Market of Ukraine, which were renewed in 2012 - 2013 for an unlimited period.

The Bank accepts deposits from individuals and grants loans, transfers payments across Ukraine and abroad, exchanges foreign currencies and provides banking services to its corporate customers and individuals. The Bank also develops programs to support small and medium businesses, provides financing for agricultural producers, expanding the list of services for business customers engaged in foreign economic activities.

Legal address of the Bank and its head office location is 32 Zhylanska str., Shevchenkivskiy district, Kyiv, Ukraine 01033. Country of residence is Ukraine. As at December 31, 2022, the Bank has 28 offices all over Ukraine (2021: 28 offices).

As at December 31, 2022, 100% of the Bank's shares were owned by O. Yaroslavsky, owner and president of DCH Group.

As at December 31, 2022, O. Yaroslavsky (the Shareholder) is the ultimate beneficiary of the Bank.

2. Operating environment

On February 24, 2022, russian federation started full-scale aggression against independent Ukraine with a train of missile strikes and ground attack through common border, from Byelorussia and annexed Crimea. Nondeclared war and related economic and financial instability, uncertainty of future developments and impossibility to determine length and aftereffects of hostilities may have a negative impact on performance and financial position of the Bank, while its nature and effect cannot be assessed now.

A year after commencement of full-scale military aggression, hostilities go on in several oblasts of Ukraine with thousands of Ukrainians killed by russian troops, millions of Ukrainians were temporarily relocated from the areas of hostilities or went abroad. Aggressor attacks are focused on destruction of civil infrastructure in Ukraine, including hospitals and residential areas. As a result of missile strikes by aggressor, Ukrainian logistic infrastructure, oil storage facilities, refineries and other critical infrastructural objects were damaged to some extent. Ukrainian Armed Forces heroically defend the country fighting against russian troops. After crushing defeat around Kyiv and Kharkiv russian federation started actual terrorism with regular waves of mass and methodical missile strikes on Ukrainian critical electric power infrastructure objects. Aggressor troops planned to break Ukrainian power system into several isolated islands ruining key transformer substations stopping power flows between regions, paralyzing economy, transport infrastructure, provoking panics of population, affecting motivation of Ukrainian soldiers and civilians. Ukrainian electric power infrastructure was restored by power engineering specialists. Railway and road logistic network continue to function, as Ukraine has a well-developed railway and road system. As of commencement of hostilities all seaports on Black and Azov seas stopped their operations, sea export was completely frozen. In order to ensure food safety in the world, with the assistance of United Nations Organization and Turkey, on July 22, 2022, a treaty on safe transportation of grain and foodstuffs (so-called grain treaty) was signed in Istanbul. The signed documents provide for safe navigation to export grain and related foodstuffs, fertilizers, including ammonia from Ukrainian sea ports of Odessa, Chornomorsk and Yuzhny. The ships will cross Black sea by special mine-free corridors. All merchant ships shall come to Turney for inspection. Term of the grain treaty was 120 days and was extended two times in spite of blackmail of the aggressor country.

As a result of full-scale attack the President of Ukraine by his Decree №64/2022, as approved by Law of Ukraine *On Introduction of Martial Law in Ukraine* № 2102-IX of February 24, 2022, introduced martial law in Ukraine as of 05.30 AM of February 24 for 30 days. Later on the President of Ukraine extended martial law by his decrees.

In the circumstances of full-scale hostilities, NBU changed its traditional approach of inflation targeting to its monetary policies. At the onset of dull-scale war NBU introduced administrative limitations of currency market and capital flows to save macroeconomic stability in the country, constraint panics and prevent growth of inflation spiral. So, NBU introduced a set of temporary limitations of work of banking system and currency market in Ukraine, except for sale of currency to customers; an official exchange rate as at the date of commencement of military aggression was fixed; cash withdrawal from bank accounts was limited; cash withdrawal from bank accounts in foreign currency was prohibited; cross-border currency payments (except for payment for critical import) were disallowed; securities market was temporarily suspended; servicing of expense transactions from accounts of residents of aggressor country by banks was stopped; the banks were prohibited to engage in any currency transactions in RUB and byelorussian roubles or transactions with legal entities or individuals located in russia or Byelorussia.

National Bank of Ukraine, in order to support stability of banking system through minimization of negative effect of russian military aggression against Ukraine, approved the decision on non-application of punitive measures for violation of economic ratios and limits of open currency position by banks, as well as term of filing of respective reports, if the violations took place after February 24, 2022, as a result of negative impact of military aggression; implemented requirements on credit risk limits under active banking transactions and management of nonperforming assets (NPA); approved rules of blank refinancing of banks to support liquidity of banking system; provided for free access of wide range of investors to government bonds issued to cover military needs of Ukraine and fight against enemy; annulled decision on increase of ratios of mandatory provisioning, decided not to perform annual bank resilience measurement in 2022, introduces by Regulation of measurement of resilience of banks and banking system of Ukraine № 141 (with changes and amendments) of December 22, 2017, and so on.

In June 2022, NBU returned to active interest rate policies, significantly increasing discount rate (from 10% to 25%). Gradually, NBU reduced the scope of budget monetizing and stopped emission financing as of early 2023. On July 21, 2022, NBU adjusted official UAH/USD FX-rate by up to UAH 36,5686/USD 1. At the same time, strict correlation of UAH FX-rate to USD is the key stabilizing instrument of monetary policies in current situation. NBU takes steps to balance currency market position and enforce transmission mechanism of its monetary policies as the precondition to return to traditional format of inflation targeting.

As of commencement of full-scale war, inflation rate went up mostly due to factors of proposal. Still, in spite of war-related challenges and high-inflation environment, the inflation was manageable and stabilized by the end of the year. Consumer prices went up by 26.6% in 2022, with inflation index being close to stable during last three months of 2022. Inflation pressure was stabilized due to liberation of territories, improvement of supply of foodstuffs and decreased consumers' demand as a result of power-supply terror of russia. Inflation was stabilized due to unchanged tariffs for utilities, fixed UAH FX-rate and restoration of logistics. NBU steps, namely, introduction of deposit instruments to hedge currency risk and limited monetization of budget also assisted in stabilization of cash currency market situation by the end of 2022. Still, price pressure is significant as the result of the war, including ruining of factories and infrastructure, disruption of chains of supply and production. Expenses of businesses went up as a result of electric power terror of russia. Inflation expectations were still high in spite of stabilization. NBU forecasts that in 2023 inflation would slow down to 18.7% as a result of strict monetary measures, slow-down of international inflation and lower demand caused by shortages of electric power supply. Inflow of announced international aid, as well as common steps by NBU and government to activate internal borrowings market would help to evade emission financing of budget deficit and balance currency market.

Grounds for restoration of economy, which arose in 2-3 quarters, were ruined by russian acts of terrorism against power engineering infrastructure in October 2022. NBU estimated that in 2022 Ukrainian economy decreased by 30.3% annual. Major reasons for the most dramatic recession in the history of the country were the effects of full-scale war: ruining of infrastructure and production facilities, disruption of logistics chains and drop of export, decrease of investments and low consumers' demand partially due to active migration and harvest that was significantly lower than in previous year. Grain crops harvest in 2022 was lower by 40% compared to record-breaking harvest of the previous year mostly due to significant decrease of harvested areas as a result of occupation and mined territories. As a result of electric-power terror of russia Ukrainian GDP in IV quarter of 2022 went down (by 35% annual). Trade and service entities quickly adapted to power shutoffs. Impact of shutoffs to agricultural sector was also limited, while industrial entities, in particular, metallurgy faced significant losses. Still, due to better results of III quarter and quick adaptation of some businesses and population to new conditions, estimate of real GDP drop in 2022 was improved and corrected to 29,2%. NBU expects some increase of real GDP in 2023 – by 0.3%. Key risks still are electric power terror and length of existence of safety risks, resulting in delay of full-scale opening of seaports, this suspending export rehabilitation potential. Besides, NBU forecasts that accumulated problems related to sowing and harvesting campaigns during the war would cause the decrease in crops harvested. Decrease of safety risks, restoration of full-scale operations of seaports, increase of crops harvested, gradual restoration of production facilities, improvement of logistics and increase of local demand, including return of forced migrants, would help to improve Ukrainian economy in 2024–2025. Soft fiscal policy would also play its part.

Financing of military and social expenses, and support of economy critically depends on international aid and its timely inflow. In 2022, Ukraine received over USD 32 billion where over USD 14 billion were grants. Due to this aid, the government managed to finance major part of budget deficit (over 27% of GDP without grants) and increase international reserves up to USD 28.5 billion by the end of the year. Current level of reserves is adequate to stabilize currency market. Keeping in mind already declared scope of international aid and progress in discussions with IMF, total scope pf official financing in 2023 may be over USD 38 bullion, thus making it possible evade emission financing of budget deficit in 2023 and maintain international reserves at adequate level even in case of longer continuation of high safety risks. It is expected that by the end of 2023 international reserves would be close to USD 27 billion and continue to grow.

In 2022, there were seven meeting of ministers of defence of several dozen countries in Rammstein format resulting in actual creation of coalition for international defence support of Ukraine.

On March 31, the Board of executive directors of IMF approved *Mechanism of Extended Financing* for year program for Ukraine of USD 15,6 billion (SDR – 11,6 billion). The decision of the IMF Board of directors provides for immediate first tranche of USD 2.7 billion to Ukraine (SDR - 2 billion). Subsequent tranches would be transferred based on quarterly reviews of the program. During this year, Ukraine has a possibility to receive three tranches for total of USD 4,5 billion (SDR - 3,3 billion). Key focus of the program is support of fiscal, international, price and financial stability, as well as gradual economic rehabilitation of Ukraine during after-war restoration and joining EU.

Discount rate is stable at the level of 25% as of June 2022. At the same time, NBU increased its requirements to mandatory reserves of the banks, as declared in December. As of February 11 ratio of mandatory reserves under funds on demand and funds at current accounts of corporate customers and individuals increased by 5 percent; the same applies to deposits and funds at current accounts of other non-resident banks and loans from international and other organizations (except for financial ones), namely, from 5% to 10% – in local currency and from 15% to 20% – in foreign currency. Besides, as of March 11 mandatory reserves under funds on demand and funds at current accounts of individuals in local and foreign currencies increased by 10 percent. Still, this part of reserves is not covered by mechanism of coverage for state bonds benchmark. NBU expects that the above measures would reduce surplus of liquidity in the banking system. The above would stimulate the banks to compete for term deposits of depositors and increase the share of term deposits. It would result the resilience of currency market to situational factors, while NBU may soften administrative limitations for business and individuals. NBU expects to keep discount rate as the level of 25% at least until the end of I quarter of 2024. NBU is ready to implement further measures to evade emission financing of budget deficit, increase attractiveness of UAH assets, improve stability of currency market and form proper preconditions for decrease of administrative limitations.

In order to provide for stability of banking system, the changes were introduced into the laws related to guarantees regarding deposits of individuals, stating that during martial law in Ukraine and for three months after its suspension or termination the Deposit Guarantee Fund will compensate funds of each depositor in full (previous limit - UAH 200 thousand). This rule covers the banks that were registered as insolvent or which banking license was withdrawn after April 13, 2022, during martial law in Ukraine and for three months after its suspension or termination. After termination of three months after suspension or termination of martial law in Ukraine, Deposit Guarantee Fund would guarantee compensation of not more than UAH 600 thousand.

Credit risk continues to be the biggest threat for banking sector. As of commencement of full-scale invasion, allocations to allowances are close to 11% of performing loan portfolio of the banks as at the end of February. Retail loans and loans to entities, suffering significant losses of production facilities and sales markets have the highest risks.

Still, banking sector is operationally profitable, thus having the first line of defence to cover losses under loans.

NBU intends to measure resilience of the banks in 2023 to assess and confirm correctness of disclosure of loan portfolio quality, adequacy of provisions and allowances, measurement of real regulatory capital. Based on results of measurement, NBU will set transitional period for restoration of capital to minimal regulatory values.

Ukrainian economy functioned in the circumstances of full-scale war in 2022. Safety risks determine the prospects of its future development. The biggest risk in this situation is intensification or extended length of hostilities in Ukraine. Each month of russian aggression results in significant human and economic losses, as well as deterioration of prospects of development. Increase of electric power deficit through ruining of power infrastructure is a significant risk to be taken into account in forecast of economic activity. Significant shortage of generating capacities would result in extended shutoffs of industrial consumers reducing their economic activities. Partial deblocking of Ukrainian Black Sea ports for export of foodstuffs somewhat reduced negative effect of disruption of logistic relations with trade partners. Still, there is a significant risk of closing or complication of work of grain corridor. This would deteriorate the export of agricultural products and decrease currency inflow into the country. Forced limitations of export would slow down foodstuff inflation in Ukraine by increased supply to local market. Still, this situation would negatively affect expectations of agricultural producers regarding sale of future crops with subsequent decisions to reduce areas under crops, thus decreasing their economic activities. Basic NBU macro-forecast scenario shows visible decrease of safety risks only in early 2024. As a result, expected full-scale deblocking of seaports and decrease of premium for Ukraine-related risks are moved further on. Intensification and continuation of war, higher than expected deficit of electric power through acts of russian terrorism may significantly limit economic activities and increase inflation pressure. There are other actual risks, which, if realized, may cause the review of key macroeconomic indices, namely, origination of additional budget needs and formation of significant quasi-fiscal deficits in electric power sphere through unforeseeable nature of war; delay of return of large number of people to Ukraine and potential additional migration from Ukraine limiting consumers' demand and threatening growth of structural problems at labour market and decrease of economic potential; irregular inflow of external financing; complications in work of grain corridor. On the other hand, quick implementation of rehabilitation plan for Ukraine with respective inflow of official and private financing may significantly improve economic growth.

Effects of war are changing day by day, while their long-term impact cannot be determined. Their impact on Ukrainian economy depends on how russian aggression against Ukraine would end, on successful implementation of new reforms by Ukrainian government, strategy of rehabilitation and transformation of the country in order to get EU membership and cooperation with international funds.

Management of the Bank believes that it implements proper measures to ensure stale bank operations, as required by current situation, although further instability of business environment may negatively affect the performance and financial position of the Bank, undeterminable at the moment. These annual financial statements reflect current assessment of impact of conditions of business in Ukraine on affect the performance and financial position of the Bank. Future developments may differ from management estimates.

3. Basis of preparation of financial statements

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements are prepared under the historical cost convention except for buildings (classified as fixed assets), investment property, investment securities and transactions with derivatives at fair value, assets, held for sale as disclosed at the lowest of cost or fair value net of selling cost.

Going concern

These financial statements have been prepared on the assumption that the Bank operates as a going concern and will remain active for the foreseeable future. Note 6 discloses the main factors considered by the management when assessing the Bank's ability to continue as going concern.

Functional and presentation currency

The functional currency for these financial statements is Ukrainian hryvnia. These financial statements are presented in thousands of Ukrainian hryvnias (UAH), if not stated otherwise.

4. Summary of accounting policies

4.1. Changes in accounting policies and disclosure guidelines

Accounting policies applied are the same as the policies applies by the Bank in previous reporting year, except for the effect of new standards, applicable as of January 1, 2022.

New standards applicable as of January 1, 2022

The following new standards and interpretations are applicable and mandatory for the Bank as of January 1, 2022, or at a later date. The Bank did not implement early application of standards, interpretations or amendments that have been issued but not effective yet.

The nature of the impact of these changes is presented below. While some standards and amendments were applied for the first time in 2022, they had no material impact on the annual financial statements. The nature and impact of every new standard or amendment are disclosed below:

Annual improvements 2018-2020 cycle:

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – the amendment simplifies measurement of cumulative FX-rate differences by a subsidiary that applies IFRS later than its parent company – the amendment has no effect on the financial statements of the Bank;

IFRS 9 *Financial Instruments* – amendment explains what commission fee should be taken into account when measuring whether terms of new or modified financial liability differ significantly from initial financial liability.

This amount should include only those commission fees paid or received between certain creditor and borrower, including commission fee pair or received by the creditor or the borrower in the name of a third party. The amendment is applicable to financial liabilities modified or replaced as of January 1, 2022.

The amendment has no effect on the financial statements of the Bank.

IFRS 3 *Business Combinations* - referral to conceptual framework

In May 2020, IASB issued amendments to IFRS 3 *Business Combinations* - referral to conceptual framework. Purpose of the amendment is to replace reference to 1989 *Framework for the Preparation and Presentation of Financial Statements* by reference to *Conceptual Framework of Financial Reporting* of March 2018 without significant changes in the standard requirements.

IASB also added exclusion from principle of recognition in IFRS 3 to prevent origination of potential 2nd day profit or loss for liabilities and contingent liabilities under IAS 37 or IFRIC 21 *Levies*, if they arise during certain transactions.

At the same time, IASB explained current requirements to contingent assets, not affected by the replacement of references.

The amendment has no effect on the financial statements of the Bank.

Amendments to IAS 16 *Property, Plant and Equipment* - proceeds before the intended use

In May 2020, IASB issued a document Property*, Plant and Equipment* - proceeds before the intended use, prohibiting to deduct any proceeds generated by sale of products produced during testing of an asset in order to get it ready for intended use from historical value of this fixed asset. Proceeds from sale of such products and cost of their production are recognized in profit or loss - the amendment has no effect on the financial statements of the Bank;

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – onerous contracts – cost of fulfilling contract

In May 2020, IASB issued amendments to IAS 37 explaining what costs should be taken into account to determine whether a contract is onerous or loss making.

The amendments are applicable to annual reporting periods as of January 1, 2022. The amendments introduce the approach based on costs directly related to a contract. Costs directly related to a contract on supply of goods or services include additional costs to fulfil the contract and allocated costs directly related to fulfilment of the contract. General and administrative costs are not directly related to the contract and are not taken into account except for cases when they are clearly to be compensated by a counterpart under the contract.

The amendment has no effect on the financial statements of the Bank.

4.2. Significant accounting policies

Foreign currency translation

Transactions in foreign currencies are translated to UAH at the NBU exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAH at the NBU exchange rate as at the date of the transaction. Exchange rate differences, arising on translation, are recognized as profit or loss in *Revaluation of foreign currency* item. Non-monetary assets and liabilities denominated in foreign currencies are translated to UAH at the NBU exchange rate as at the date of the transaction.

The official UAH exchange rates used in the preparation of these financial statements as at December 31 are as follows:

Currency	*2022*	*2021*
USD	36,5686	27,2782
EUR	38,9510	30,9226

4.2.1. Financial instruments

Initial recognition

Financial assets and liabilities are recognized as at the date of transaction when the Bank becomes a party in a contract on purchase or sale of a financial instrument or as at the date of settlement when the Bank factually receives or transfers an asset. The selected method is consistently applied to all purchases or sales of the financial instruments of the same category. Loans are recognized when they are transferred to customer accounts, while deposits and funds of customers are recognized, when funds are credited to an account in the Bank.

Classification of financial assets

The Bank classifies financial assets as those valued at:

- amortized cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

A financial asset is classified to the category of assets valued at AC, if both following conditions are met: (a) held within business model to receive contractual cash flows; (b) held to receive scheduled cash flows, which are only payments under contract to redeem principal and interest payments on outstanding principal.
A financial asset is classified to the category of assets valued at FVOCI, if both following conditions are met: (a) held within business model to receive contractual cash flows and to sell; (b) held to receive scheduled cash flows, which are only payments to redeem principal and interest payments on outstanding principal.
A financial asset is classified to the category of assets valued at FVTPL, if: (a) it does not comply with requirements to AC or FVOCI categories; (b) at the initial recognition (without further reclassification), if inconsistency of approaches to valuation or recognition (inconsistency of accounting) from use of differed bases for valuation assets and liabilities or recognition of related profit and loss is mitigated or significantly reduced.

Classification is based on:

- business model of the Bank for management of financial assets;
- contractual characteristics of cash flows under a financial asset.

Business models. The Bank applies the following business-models:
Model of assets held within business-model to receive contractual cash flows intended to hold assets to generate contractual cash flows; sell assets due to deterioration of credit quality of assets to minimize losses of expected cash flows; sell to manage credit risk (such sales may be uncommon, even if their scope is significant, or their scope is not significant (even if they happen

often)); sale of assets shortly before maturity of financial assets and proceeds from sale are approximately equal to remaining cash flows. Financial assets under this business model are valued at amortized cost;

Model of assets held to receive contractual cash flows or sell the asset intended to manage the Bank’s liquidity, while assets under this model are held to receive contractual cash flows or to sell. Financial assets under this business-model are evaluated at fair value through other comprehensive income;

Management of trading assets model intended to hold assets for sale or buyback in near future; management of assets is based on fair value. Financial assets under this business model are valued at fair value through profit or loss. This business model also includes financial assets, which do not comply with criteria of classification as asset at amortized cost or fair value through other comprehensive income.

SPPI-test. For classification purposes, the Bank used SPPI-test to analyse contractual cash flows, if they are cash flows from redemption of principal and interest payment on outstanding principal only. SPPI-test includes in-depth analysis of contractual terms, in particular: (a) time value of money; (b) contractual terms changing term or amount of contractual cash flows; (c) contract-related instruments.

During SPPI test the Bank groups financial assets into three portfolios:

- *Portfolio 1* – SPPI-test is evident for this group of assets from the general contractual terms (redemption of principal and interest payments only, only standard fees for asset generation, other contractual payments are penalties for breach of contractual terms);
- *Portfolio 2* – collective analysis is possible for this subgroup of similar assets (standardized bank products);
- *Portfolio 3* – assets analysed on individual basis.

The Bank classifies all financial assets, which passed SPPI-test, at amortized cost and at fair value through other comprehensive income. The financial assets, which did not pass SPPI-test, by the special decision of the Bank are classified at fair value through profit or loss.
At initial recognition of some investments to equity instruments valued at FVTPL the Bank can take decision to recognize the further change of fair value of these investments as other comprehensive income. Such investments are not to be reclassified.

Classification of financial liabilities

All financial liabilities except for credit commitments and financial guarantees are valued at amortized cost or at fair value through profit or loss, if they are tradable or derivatives, or at fair value through profit or loss by the decision of the Bank.

Derivatives

Derivative is an instrument or agreement, which has simultaneously three following criteria: (1) its value changes due to changes of exchange rate, index or rate, good price or other variable; (2) no initial investments are required to purchase it, or initial investment is insignificant; (3) settlements on instrument will be made in future.

Derivatives are initially recognized at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in profit or loss.

Embedded derivative is a component of hybrid (combined) agreement, which also includes non-derivative main agreement, resulting in change of some cash flows from combined instrument.

Embedded derivative, if it is a financial asset, is not disclosed separately. Such hybrid agreement is classified as financial asset at fair value through profit or loss.

Instruments, embedded into financial liabilities and nonfinancial main agreements, are analysed by the Bank on their separation and recognition at fair value through profit or loss, while the main agreement is recognized in such cases in accordance with respective accounting policies. The Bank can classify all hybrid agreement at fair value with revaluation through profit or loss, except for the cases, when (a) embedded derivative does not significantly change contractual cash flows or (b) separation of embedded instrument is prohibited.

Reclassification

The Bank does not reclassify financial assets after initial recognition except for cases when business model changes commencement or suspension of some activities. Financial assets are reclassified in the first day of the year after the Bank changed business model. In the period from the date of decision to the date of reclassification, previously classified assets continue to be recognized without taking into consideration of change in business-model, but new assets are classified under the new business model. Financial assets are reclassified in prospect.

Financial liabilities cannot be reclassified.

Initial recognition of financial assets and financial liabilities

Financial instruments are initially recognized at fair value adjusted by direct costs related to purchase or generation of a financial asset or financial liability except for financial instruments at fair value through profit or loss. If fair value of a financial instrument differs from contractual price at the moment of initial recognition, the Bank recognizes this difference as profit or loss of the first day.

Profit or loss of the first day is recognized immediately in operating income or expense, if fair value is based on market data. When fair value is based on the model, where comparative data in public access are not available, profit or loss of the first day is postponed to future periods and recognized in profit or loss by straight-line method during the life of the instrument.

Subsequent valuation of financial assets

Financial assets at fair value through profit and loss

The Bank values debt financial assets at fair value through profit and loss for tradable instruments (profit generated in the short term), financial assets, which do not comply with requirements for classification at amortized costs or at fair value through other comprehensive income. Revaluation of instruments at amortized cost is recognized as net trade result, interest income and expense are recognized separately, not as part of fair value changes, while dividends are recognized, when the Bank established the right to receive dividend. The Bank does not assess impairment of financial assets at fair value through profit or loss.

The Bank classifies securities, capital instruments and FX swaps to this category.

Financial assets at fair value through other comprehensive income

The Bank values debt financial assets at fair value through other comprehensive income only if they comply with the purpose of business model regarding contractual cash proceeds or proceeds from sale, while cash flows undergo SPPI-test. Interest income result from FX revaluation is recognized by the Bank in profit and loss, while result of revaluation to fair value is recognized in other comprehensive income to be reclassified to profit or loss at derecognition of financial asset.

The Bank classifies liquid debt securities under such category, as they can easily be sold to improve the liquidity.

The Bank took decision on equity instruments, purchased rather as obligatory inputs to capital of stock exchanges, clearing centres, etc., then acquired for trade, to classify them at fair value through other comprehensive income. This decision is not cancellable. At derecognition of capital instruments, revaluation accumulated in other comprehensive income is never reclassified to profit or loss, it can be reclassified only between capital items. Dividends are recognized by the Bank to profit or loss only when right for them is established.

For debt financial assets the Bank assesses expected credit risk. Expense on provisions are recognized in profit or loss, while provisions do not decrease balance value of an asset, being recognized in other comprehensive income.

Financial assets valued at amortized cost

The Bank applies recognition at amortized cost to the instruments, which underwent SPPI test and comply with the business model of cash flows of principal and interest payments. Amortized cost is calculated taking into account costs and fees directly related to issue of an instrument and included to calculation of effective interest rate (EIR). The Bank recognizes interest income, using EIR, in profit or loss, while provision decreases balance value of an asset.

The Bank classifies amounts Due from other banks, loans to customers, deposit certificates of the national Bank of Ukraine as those measured at amortized cost.

Subsequent valuation of financial liabilities

After initial recognition the Bank classifies all financial liabilities as those recognized at amortized cost, except for:

(a) *tradable and derivative financial liabilities* - valued at fair value through profit or loss;

(b) *financial guarantee agreements and credit commitments to customers* – valued at the largest of: (i) amount of estimated provision, (ii) initially recognized amount adjusted by recognized cumulative amortization (if acceptable).

The Bank recognizes interest expense on financial liabilities valued at amortized cost in profit or loss using EIR and discounting expense and fees directly related to recognition of financial liability. The Bank classifies amounts Due to other banks and customers at current and deposit accounts as financial liabilities at amortized cost.

Revaluation of financial liabilities to fair value is recognized in profit or loss.

For financial liabilities, recognized by the Bank at fair value through profit or loss, change of fair value, resulting from change in credit risk of the Bank, is recognized in other comprehensive income, the rest – in profit or loss.

The Bank issues financial guaranties and has financing commitments on unsecured letters of credit, credit lines and avals. Initially the Bank values them in the amount of received remuneration, recognized in fee & commission income, on straight-line basis during the maturity of guaranty or liability. Expense on provisions are recognized in profit or loss, while provisions are disclosed in statement of financial position as provisions for liabilities. Nominal value of financial guaranties and unused credit line commitments are disclosed in the Notes.

Effective interest rate method

Interest income/expense on interest financial instruments are calculated using the method of effective interest rate. EIR is calculated on basis of costs incurred by the Bank at operation and commissions received for issue of an instrument. Effective interest rate is the rate, used to discount future cash flows during expected maturity of financial asset or liability, providing constant rate of income or expense.

For financial assets and liabilities at floating interest rate, the Bank revises cash flows using market interest rates resulting in change of EIR. Change of interest rate related to change of credit spread does not cause change of EIR.

The Bank does not perform calculation of EIR on financial assets and liabilities, where scope of cash flows and date of origination cannot be determined. Such financial instruments include loans and deposits overdraft, revolving credit lines.

For financial assets impaired at the date of initial recognition, the Bank calculates EIR adjusted by credit risk (EIRpd). The Bank includes credit losses, expected during the life of an asset, to asset cash flows for calculation of EIRpd.

Revision of contractual cash flows. Modification

The Bank revises balance value of financial asset or liability, when expectation of cash flows on an instrument change or at confirmation of agreement modification.

In case of revision of expected cash flows, the gross book value or amortized cost of financial instruments are recalculated as present value of future flows discounted at initial EIR or EIRpd. Volume of revision is recognition in interest income or expense.

In case of revision of cash flows, when customer confirms agreement modification, the gross book value or amortized cost of financial instrument is recalculated as present value of modified cash flows discounted by EIR or EIRpd. The revision volume is recognized as modification income or loss. When modification of contractual conditions results in difference not less than 30% for an asset and 10% for a liability between present cash flows at new conditions and residual flows at initial conditions or change in currency of financial instrument happens, the Bank derecognizes existing financial instrument and recognizes the new one. In such case, the date of modification is a date of initial recognition of a new instrument.

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) the financial asset is transferred to other party and this transfer complies with requirements for derecognition.

The transfer of financial asset complies with requirements for derecognition, if: (1) the Bank has transferred substantially all the risks and rewards of the asset, or (2) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control over the asset.

Write off

The Bank writes off an asset (or its part), when there is no reasonable expectation that it would be collected. As a rule, in such cases the Bank recognizes that the borrower does not have assets or other sources of income, generating cash flows adequate to repay the debt to be written off.

The Bank may continue to take steps to collect the debt under financial assets written off.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is redeemed: (a) when the Bank repaid all debt to creditor; (b) when the Bank is legally relieved from initial liability either through court decision or by creditor; (c) when one debt instrument is exchanged for another one, terms of which differ at least by 10% from discounted present value of initial financial liability.

Impairment of financial assets

Principles of measurement of expected credit losses

The Bank calculates expected credit losses for financial assets and respective allowances starting from the date of recognition until the date of derecognition. The amount of expected credit losses is recognized as estimated allowances depending on the level of impairment of credit quality after initial recognition.

The Bank recognizes allowances for expected credit losses for debt financial assets at amortized cost and debt financial assets at fair value through other comprehensive income.

Calculation of allowances for expected credit losses is based on evaluation of financial situation of a borrower, debt service taking into account type and conditions of a transaction. Allowances for expected credit losses is estimated in the amount of losses, which are expected to be incurred during the maturity of an asset, if credit risk significantly increased after initial recognition. Otherwise, allowances for expected loss will be set in the amount of 12-month expected loss.

Expected credit losses for 12-month period is a part of expected loss for the whole period of maturity that can arise during 12 months after reporting date.

As at the end of every reporting period, the Bank estimates existence of evidence of impairment of financial asset of group of financial assets taking into account losses expected as a result of future events adjusted by probability of their occurrence during the life cycle of a financial instrument taking into account dependences on forecasted dynamics of scenario macroeconomic indicators weighted by probability of occurrence.

At initial recognition of a loan and before appearance of evidence of higher credit risk, the Bank recognizes allowances equalling expected loss during 12-month period (the first stage of impairment).

Evidence of higher credit risk (the second stage of impairment). The attributes of higher credit risk on counterparts, in particular: payment overdue from 31 days to 90 calendar days (for financial institutions – from 7 to 30 calendar days); increase of default probability (PD) by more than 20% compared to the date of their initial recognition and other (additional) factors hinting on increase of credit risk within the limits of monitoring on financial resilience of the Bank's borrowers, approved by the Bank.

Evidence of default (the third stage of impairment). As default definition is the key one for application of forecasting models and for rebut of assumptions below through calibration of statistic data of the Bank (own experience), taking into account historical confirmation or rebut of assumptions below, and also with intention of avoidance of differences with the Basel requirement within more complicated calculation of regulatory capital, the bank applies the following definitions of default: default occurs not later than financial asset (payment or its part) is overdue for more than 90 days for individuals and legal entities and more than 30 days for banks. Such assumption can be rebutted only if need for application of other default criteria is confirmed. In addition to number of days overdue, the Bank uses the following indicators evidencing default of financial instrument, namely:

- borrower announces bankruptcy;
- borrower is declared bankrupt;
- bank-borrower is included into category of non-solvent banks by decision of National bank of Ukraine;
- procedure of legal entity liquidation (termination) is initiated;
- banking license is revoked;
- the Bank filed a bankruptcy case against borrower as required by law;
- amendments, other than restructuring, increasing maturity of a debt for a borrower, who is not able to redeem debt without pledge despite absence of overdue payments as of the date of evaluation, are introduced to the agreement.

The above default signs confirm the fact that borrower/counterpart is not able to meet in full its liabilities to the Bank, its parent company and affiliates within contractual term without collateral foreclosure, if available assumptions do not state otherwise. The respective assumptions are stated in report on possibility of credit transaction in credit application or in opinion of credit expert. Debt load of a customer and prospects of further debt servicing in future are assessed when assumption is made. If long-term prospects on debt settlement exist, for example, available base of stable customers and buyers is identified, solvent guarantors are attracted, etc., they can be prioritized over current levels of debt load during analysis.

The Bank returns to recognition of estimated allowances for expected credit losses on the basis of losses expected during the next 12 months to stage 1, if credit quality of financial asset at stage 2 or 3 improves in such way, when material increase of credit risk does not exist and financial asset does not comply to criteria of material increase of credit risk, the Bank recognizes allowance for ECL based on losses expected during subsequent 12 months – stage 1.

Calculation of expected credit losses

For calculation of expected credit losses and expected cash flows the Bank took into consideration all contractual conditions of financial instrument (including options of advance payment, renewal of repayments terms, call options and other similar options), which are expected during the maturity of this financial instrument. If reliable evaluation of expected maturity on financial instrument is impossible, the Bank uses the residual maturity in accordance of contractual conditions. Besides the Bank includes cash flows from sales of foreclosed collateral or other tools of credit enhancement being integral part of contractual terms.

The Bank does not recognise allowances for:

- financial instruments recognized at fair value through profit or loss;
- equity instruments;
- amounts due from the National Bank of Ukraine;
- securities issued by the government and the National Bank of Ukraine;
- revolving and risk-free credit commitments and financial guaranties.

The Bank sets expected credit losses as the average weighted of credit losses adjusted by respective risks of default as adjustment coefficients, reflecting:

- objective amount adjusted by probabilities;
- assessment of the range of possible results;
- time value of money;
- substantiated and reasonable information, available without extra cost or efforts as at the reporting date, on past events, current situation and predicted future economic conditions.

The Bank recognizes expected credit losses during life of a financial instrument as expected credit losses, generated by all possible events, which may cause a default during expected life of a financial instrument.

The Bank recognizes expected credit losses during the expected maturity of a financial instrument, if the Bank expects to receive contractual cash flows under agreement later than determined by the agreement. At the same time, overdue contractual cash flows at the moment of evaluation are recognized as those to be received at the end of maturity.

For assets, measured individually, the Bank uses binary model of customer behaviour including expectations on proceeds of contractual cash flows and evidence of impairment, expectation of the Bank on sales of collateral within respective terms adjusted by liquidity coefficient taking into account probability of occurrence of such scenario from impact of macroeconomic forecast.

In such case, future cash flows are discounted for the period of life of a financial instrument.

If expected cash flows cannot be forecasted (revolving credit lines, overdrafts) or at assessment of an asset is made on collective basis, the Bank uses approach of weighting of exposure to risk by default probability (PD) and level of loss at default.

Scenario analysis: when assessing expected credit losses, the Bank considers four scenarios of default probability in accordance with forecasts of changes of macro indicators. The Standard requires to take into account scenarios of macro development of Ukraine with respective probabilities of occurrence. The expected credit losses are calculated as an amount weighted by those probabilities (for loans measures as a group) or by use of macro-adjusting factor as a special ratio standardizing index of default probability for assets, measured individually, depending on expectation of realization of the most probable macroeconomic scenario.

Assessment of collateral, foreclosure of collateral

In accordance with credit policy and risk appetite the Bank uses collateral on assets, if relevant. The Bank uses collateral for any assets, where it is expedient. Collateral may have different forms: cash (deposit, coverage), movable/immovable property, property rights and guaranties, etc.

The fair value of collateral is used for calculation of expected credit losses and is determined in accordance with regular property revaluations, in particular: immovable property, integral property complex, land lots, vehicles and equipment – not less than once per twelve months; stock in trade or processing and biological asses - not less than once per one month; other property/ property rights (except for property rights for cash) - not less than once per six months. The Bank uses the market (fair) value of collateral, determined by the appraiser or the authorized employee, who has qualification certificate of appraiser, or the value, stated in an agreement – if assets are purchased not earlier than three months before the date of collateral agreement.

The mortgaged property can be used by the Bank as instrument for satisfaction of credit agreement requirements through foreclosure. Assets, assessed as useful for the Bank's operation, are recognized as investment property or fixed assets. Assets for sale are transferred to the respective asset category. Both types of assets are recognized at fair value.

Loan restructuring and modification

Purchased or recognized impaired loans are assets, impaired as at the moment of initial recognition. At initial recognition, financial assets are recognized at fair value and interest income from such assets is respectively recognized based on EIR adjusted by credit risk. Allowance for expected credit losses under such asset is recognized or derecognized only in the amount of decreased expected credit losses.

When calculating allowances, the purchased (created) impaired financial asset or pool of purchased assets is considered as the single financial instrument, and the model of expected cash flows is developed, and calculation of initial adjusted by credit risk efficient interest rate is made at the moment of recognition by the Bank. If volume of cash collection differs by more than 10% more or less than planned by the model, the planned cash flows should be revised. Compliance with this condition is checked by the end of the reporting year, 12 months after application of the current model. When the new model of cash flows is developed, current carrying amount is calculated based on initial effective interest rate.

4.2.2. Principles of fair value measurement

The fair value of financial instruments is based on their market quotations as at the reporting date without deduction for transaction costs. If market quotations are not available as at the reporting date, the fair value of an instrument is estimated by appropriate valuation models. The models may contain modelling based on net present value, comparison with similar instruments, valued on the observable market, options pricing models and other valuation methods.

When discounted cash flow method is applied, estimated future cash flows are based on the management's best estimates using a discount rate, equal to market rate at the reporting date for an instrument with similar terms and conditions. For pricing models, inputs are based on market values as at the reporting date.

Besides, when financial statements are prepared, fair value measurements are classified by levels depending on observable data and their materiality for the assessment:

- I Level inputs: quotations (unadjusted) on active markets for identical assets or liabilities;
- II Level inputs: observable data for an asset or liability, directly or indirectly;
- III Level inputs: non-observable data for an asset or liability.

4.2.3. Cash and cash equivalents

Cash and equivalents are the most liquid assets of the Bank with the least risk of change of value; they include cash in bank cash at correspondent accounts in National Bank of Ukraine and other banks, deposit certificates of NBU, short-term loans and deposits with repayment period of up to three months, easily convertible into cash.

Balances on corresponding accounts with restricted use and guarantee deposits on settlement and documentary transactions are included into other items of statement of financial position.

4.2.4. Loans and advances to Banks

Loans and advances to banks are term deposits and loans issued. The Bank classifies loans and advances in Accordance with respective business models, taking into account SPPI test.

Sight deposits, term deposits, overnight and overdraft loans are related to assets of Portfolio 1, which does not undergo SPPI-test and is classified to business model "an asset held to collect contractual cash flows" with valuation at amortized cost. Other assets are included into assets of Portfolio 3 and classified to respective business model based on results of SPPI-test and individual decisions.

The Bank recognizes interest income from amounts due from other banks and the amount of differences in valuation of expected credit risk.

4.2.5 Loans and advances to customers

Loans and advances to customers are recognized at fair value as at the date of settlement including expenses. Subsequently, loans and advances to customers are recorded at amortized or fair value, depending on business model, chosen as a result of SPPI-test, and respective decision. The Bank does not perform SPPI-test for assets if it is evident from the terms of a separate agreement or a product.

As at every reporting date, the Bank assesses expected credit losses and makes provision. Differences in expected credit losses are recognized in profit or loss.

The bank recognizes interest income in profit or loss, using EIR method, to gross book value of assets valued at stages 1 and 2 of valuation of expected credit losses and to amortized cost of assets valued at stage 3 and the POCI-assets.

The Bank recognizes changes in fair value of loans and advances to customers in profit or loss (FVTPL) and in other comprehensive income for assets accounted at FVOCI.

If the terms of loan agreements are revised or modified without derecognition of an asset, the Bank recognizes income/loss from modification. If revision/modification result of derecognition of such assets, the Bank recognizes income/loss from derecognition.

The Bank sells loans and advances to customers, which materially suffered from deterioration of credit quality, to manage concentration of credit risks and to minimize losses from expected cash flows. Profit or loss from sale of such assets are recognized by the Bank as profit or loss from derecognition of financial instruments

4.2.6. Investments in securities

The Bank initially recognizes investments in securities as at the date of settlement and measures them at fair value. The further valuation is based on results of SPPI-test (for debt securities) and classification of the respective business model.

The debt securities, which underwent SPPI-test, are classified by the Bank to the business model *Assets held to collect contractual cash flows*, recognized at amortized cost, or the business model *Assets held to receive contractual cash flows or to sell*, recorded at fair value through other comprehensive income, to manage liquidity of the Bank.

Debt securities, where SPPI-test is evident from general parameters of a contract, do not call for any additional actions.

The Bank recognizes interest income by EIR method in profit or loss. The amount of changes of fair value is recognized in profit or loss, if investments are recognized at FVTPL, or in other comprehensive income, if investments are recognized at FVOCI. At derecognition, provision for revaluation, accumulated in other comprehensive income, is reclassified to profit or loss.

As at every reporting date, the Bank assesses expected credit risk on debt securities, recognized at AC or FVOCI. The amount of changes of expected credit risk are recognized in profit or loss.

Capital instruments are classified by the Bank at FVTPL, and if investments are made in non-tradable instruments, the Bank classifies them at FVOCI (such decision is uncancellable in future). Dividends are recognized in profit or loss, when right for dividends is established.

4.2.7. Derivative financial instruments

The Bank uses the following derivative financial instruments: forward foreign exchange contract, FX swaps to manage foreign currency risk, interest risk and other risks. Such instruments are initially recognized at fair value as at the date of transaction. The further valuation is also at fair value with recognition of revaluation result in profit or loss. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank does not enter into hedging transactions.

4.2.8. Investment property

At initial recognition, the Bank measures investment property at its cost adjusted by transaction expense before initial valuation. After initial recognition, investment property is valued at fair value, reflecting market conditions as at the date of valuation. The fair value is measured as at the date of financial statements by independent appraisers, accredited by the Bank. Profit or loss from revaluation of investment properties are included in the profit or loss as Revaluation of investment property.

The Bank reclassifies property as investment property only when changes in use of property occur.

The Bank derecognizes investment property at withdrawal, or when no economic benefits are expected. The date of withdrawal of investment property is the date, when the recipient gains control over property in accordance with IFRS 15 requirements.

4.2.9. Fixed and intangible assets

Following initial recognition at cost, buildings are carried at a revalued amount, representing fair value as at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The Bank believes that the revaluation model is more relevant to disclose the value of the buildings, as revalued cost of buildings, owned by the Bank, reflects their current value more accurately compared to historical value.

To determine the fair value of buildings and land plots, management engages independent professionally qualified appraisers. Revaluations of buildings and land plots are made with sufficient regularity to avoid significant differences between their book value and the value, measured as fair value as at the revaluation date.

The accumulated depreciation as at the revaluation date is eliminated with simultaneous decrease in gross carrying value of the asset, and the net amount is restated based on revalued amount. A revaluation surplus on buildings is recognized in other comprehensive income, except for cases, when it reverses a previous revaluation decrease, recognized in the profit or loss. Decrease in buildings value due to revaluation is recognized in the profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the buildings' revaluation reserve. On the retirement or disposal of the asset, the remaining buildings revaluation surplus is immediately transferred to the retained earnings.

Other fixed and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. The carrying amount of equipment is measured for impairment in case of events or circumstances indicating probable inability to recover carrying value of an asset. As at the end of each reporting date, the Bank assesses whether there is any indication of impairment of equipment and intangible assets. If any indications exist, the Banks measures the recoverable amount, which is determined as the higher of fair value less costs to sell and value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the profit or loss. An impairment loss, recognized for an asset in prior years, is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Costs of current repairs and maintenance are expensed when incurred. Expenditures for capital repairs and cost of replacing major parts or components of property, plant and equipment are capitalized and further depreciated over the useful lives.

Depreciation and amortization

Depreciation and amortization are charged on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization commence as of date when the acquired assets become ready for use or, in respect of internally constructed assets, as of time when an asset is completed and ready for use.

The estimated useful lives are as follows:

Land plots	Not depreciated
Buildings	50 years
Furniture and equipment	5 years
Vehicles	5 years
Computers	3 years

Costs on capital leasehold improvements are recognized as assets and, while their depreciation is recorded in the profit or loss as "Administrative and other operating expenses" within depreciation of property, plant and equipment and amortization of intangible assets on a straight-line basis over the shorter of applicable lease or the economic life of the leasehold improvement.

Intangible assets are amortized over the useful lives up to 10 years in accordance with the terms of contracts on acquisition or right of use.

4.2.10. Assets held for sale

The Bank classifies non-current assets (or a disposal group) as held for sale if it carrying amount will be recovered principally through sale rather than through continuing use. In this case, the non-current assets (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups), while the sale is highly probable.

The sale qualifies as highly probable if the Bank's management is committed to plan of sale a non-current asset (or disposal group), and an active program to locate a buyer and complete the plan is initiated. Besides, a non-current asset (or disposal group) must be actively marketed for a sale at price that is reasonable for its current fair value and in addition, while the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group), classified as held for sale at the lower of carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss as other expense through decrease of usefulness, if events or circumstances indicate that carrying amount of the asset (or disposal group) may be impaired.

4.2.11. Lease

At the commencement of lease, the Bank determines whether a contract or its components are a lease contract. A contract or its components are a lease contract, if it transfers the right to control use of underlying asset during a set period of time in exchange for compensation.

Bank as a lessee

The Bank uses the uniform approach to recognition and measurement of all lease contracts, except for short-term lease (less than 12 months) and lease of low-value assets (not more than UAH 150 thousand). As at the date of commencement of lease, the Bank recognizes a right-of-use asset and lease liability.

Right-of-use assets. As at the day of commencement of lease, the Bank recognizes the right-to-use asset at cost, comprising initial value of lease liabilities, initial direct costs, advances made under lease payments, less any incentives. After initial recognition, the Bank recognizes the right-of-use asset at initial cost less accumulated depreciation and any impairment losses, taking into account any adjustments due to revaluation of lease liability. The Bank depreciates the right-of-use asset by straight-line methods during shorter of lease term or useful life of the asset. Right-of-use assets are included into *Fixed Assets* item in Statement of financial position.

Lease liabilities. As at the day of commencement of lease, the Bank recognizes lease liability as current value of future lease payments, discounted at the rate, calculate as average profitability rate of state public bonds for respective term in respective currency plus risk premium. Lease payments include fixed payments (including substantially fixed payments) less lease incentives to be received, variable lease payments, depending on index or rate, and amount payable under residual value guarantees. Lease payment include also price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognized as expenses of the period when they originated. Subsequently, the Bank measures the lease liability increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount adjusting it by amount of revaluation or modification, if lease term is revised, lease payments are changed or assessment of options for acquisition of assets are changed. Lease liabilities are included into *Other Financial Liabilities* item in the statement of financial position.

The Statement of cash flows of the Bank discloses payments of principal under lease liability as a component of financial activities, while interest expense under lease liabilities are disclosed as a component of operating cash flows.

Bank as a lessor

Finance lease – Bank as the lessor. At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The

Bank recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Initial direct costs are included into initial receivables under lease payments.

The Bank discloses receivables under finance lease as a component of Loans and due from customer's item. The Bank applies general approach to receivables under financial lease based on expected credit losses measurement.

Operating lease. Statement of financial position of the Bank discloses assets under operating lease depending on the type of assets. Income under operating lease contracts is evenly disclosed in profit or loss of Other income item. Total value of incentives to lessees is evenly disclosed as reduction of lease income during the term of lease. Initial direct costs, related to operating lease contract, are included into carrying amount of a leased asset.

4.2.12. Borrowings

The Bank attracts funds from banks, individuals and legal entities for sight and term deposits, initially recognized as at the date of settlement. These instruments are initially valued at fair value and, subsequently, at amortized cost.

The interest expense is recognized in profit or loss in Interest expense.

The Bank derecognizes borrowings at repayment, relief of liabilities to pay to creditor, or when one debt instrument is replaced by another one under different conditions. The different conditions mean difference not less than 10% between the current value of cash flows under new terms, discounted by initial EIR, and residual cash flows under initial financial liability.

4.2.13. Provisions

Provisions are recognized, when, as a result of certain event in the past, the Bank has legal or voluntary liabilities to be settled with possible outflow of economic resources, containing future economic benefits, which can be measured with high reliability.

4.2.14. Share capital

Ordinary shares are recorded as share capital. Costs of services of third parties, directly attributable to the issue of new shares, are shown in equity as decrease from proceeds, gained due to issue. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

4.2.15. Recognition of income and expense

The Bank recognizes income and expense on accrual basis, except for fines and penalties received or paid. On once-off services (FX conversion, remittances, preparation of verification letters, etc.) the bank recognizes income and expense without accrual, if funds are received/paid in the period, when services are actually provided. In profit or loss statement, the Bank groups income by their nature/

Interest income. The Bank calculates interest income, applying EIR method to gross book value of financial assets except for credit impaired assets. Interest income from assets impaired (stage 3) is recognized by the Bank using EIR to amortized cost of such asset, and the Bank again applies EIR to gross book value, when an asset is no longer credit impaired.

At purchase or creation of credit impaired assets (POCI-assets), the Bank calculates interest income applying EIRpd to amortized cost of such assets

The Bank does not use EIR for financial assets on demand or instruments with unpredictable cash flows and recognizes income at contractual interest rate.

Interest expense. The Bank recognizes interest expense applying EIR method to amortized cost of financial liability as of its initial recognition.

For financial liabilities on demand, the bank recognizes interest expense at contractual interest rate.

Commission income. The Bank earns commission income from a diverse range of services it provides to its customers. Commission income can be divided into the following two categories:

- *Commission income from services provided over a certain period of time.* Commission income, earned for provision of services over a period of time, is accrued over that period. This income includes commission income and fee for asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs directly related to issuance of loans) and recognized as an adjustment to the effective interest rate on the loan

- *Commission income from transaction services.* Commission income from negotiating or participating in the negotiation of a transaction in the name of a third party, e.g., the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized after completion of the underlying transaction. Commissions or their part, linked to a certain performance, are recognized when respective criteria are met.

Dividend income. Dividends are recognized when the right of the Bank to receive the payment is recognized.

4.2.16. Taxation

The income tax for the year comprises current and deferred taxes. The income tax is recognized in the profit or loss as Income tax expense, except when it relates to items of other comprehensive income, or to items of the statement of changes in equity; in this case it is recognized respectively in other comprehensive income or in the statement of changes in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or prevailing as at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax expense are calculated in accordance with the legislation of Ukraine.

Deferred tax is calculated using the liability method for all temporary differences between the carrying amounts of assets and liabilities in financial accounting and the amounts used for taxation purposes. Deferred tax is calculated depending on the expected way of realization or settlement of the carrying amount of assets and liabilities, using tax rates effective in the periods of possible realization of temporary differences between tax and financial accounting.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences may be utilized. Deferred tax asset is reduced, when use of respective tax benefit is not probable.

Ukraine also has various operating taxes applicable to the Bank activities. These taxes are disclosed in other operating expenses.

5. New standards and interpretations not effective yet

The following new standards and interpretations were issued that will be mandatory for the Bank in the reporting periods starting on or after January 1, 2023, or at a later date. The Bank did not apply and standards and interpretations before their validity.

IFRS 17 *Insurance Contracts* (with changes and amendments published in 2020-2021). IFRS 17 introduces single accounting model for insurance contracts.

Major requirements of IFRS 17 include: classification of insurance and investment contracts; mandatory separation of components that are not insurance; determination of profitability of insurance contracts at initial recognition (e.g., whether insurance contracts are onerous); aggregation of contracts by: risk level, profitability, sate of issue and other requirements; extension of requirements to disclosure of information in financial statements regarding structure of balance and statement of financial performance; actuarial calculations by different methods of measurement of liabilities.

IFRS 17 requires to measure insurance contracts based on revised estimates and assumptions reflecting terms of cash flows and taking into account any uncertainty related to insurance contracts.

Insurance contracts should be measured solely by liabilities arising from the contracts.

An entity should recognize income based on the fact of provision of insurance services rather than after the premium is received.

This standard replaces IFRS 4 *Insurance Contracts* and is applicable for annual periods starting as of January 1, 2023, or at a later date; earlier application is permitted. The standard is not applicable to the Bank.

Amendments *First-time Application of IFRS 17 and IFRS 9 – comparative information.* Applying the respective requirements to classification of financial assets, the entities have to present comparative information as of requirements of IFRS 9 to classification and measurement were applied in comparative period. The amendments come into force as of the date of application of IFRS 17.

Amendments to IAS 8 – *Accounting Estimates*

In February 2021, IASB issued amendments to IAS 8, introducing definition of accounting estimates. The amendments explain the difference between changes in accounting estimates and changes in accounting policies and correction of errors. Besides, the amendments explain how entities should use methods of measurement and input data to develop accounting estimates.

These amendments are applicable for annual periods starting as of January 1, 2022, or at a later date, and are to be applied to changes in accounting policies and accounting estimates as at the beginning of the above period or later on. Earlier application is permitted if this fact is disclosed.

The amendments would not affect financial statements of the Bank.

Amendments to IAS 1 and Practical Recommendation № 2 on application of IFRS – *Disclosure of Information on Accounting Policies*

In February 2021, IASB issued amendments to IAS 1 and Practical Recommendations № 2 on application of IFRS *Forming of Judgements on Materiality*, with guidance and examples to assist entities in application of judgment on materiality when disclosing information on accounting policies.

The amendment would assist entities to disclose more useful information on accounting policies by replacement of requirements to disclose major provisions of accounting policies by requirement to disclose material information on accounting policies, including recommendations how entities should apply notion of materiality when making decision regarding disclosure of information on accounting policies.

These amendments are applicable for annual periods starting as of January 1, 2023, or at a later date, earlier application is permitted. Practical recommendations №2 on application of IFRS contain non-obligatory guidance application of judgment on materiality when disclosing information on accounting policies.

The bank reviews possible effect of these amendments to disclosure of information on accounting policies.

Amendments to IAS 12 *Income Taxes* – deferred assets related to assets and liabilities generated by the same transaction. These amendments are applicable for annual periods starting as of January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements – *classification of liabilities as current and noncurrent* - in January 2020, IASB issued amendments to p.p. 69 – 76 of IAS 1. The amendments clarify the following:

- What is the right to defer settlement of liability;
- The right to defer should exist as at the end of reporting period;
- Classification of liabilities does not depend on probability that the entity would apply its right to defer settlement;
- Terms of liability would not affect its classification only if derivative, embedded into convertible liability, is an equity instrument.

These amendments are applicable for annual periods starting as of January 1, 2023, or at a later date. The bank reviews possible effect of these amendments to current classification of liabilities.

Amendments to IAS 1 Presentation of Financial Statements – *noncurrent liabilities with covenants* – state that if the right of an entity to defer settlement of a liability is subject to covenants during 12 months after the reporting date, the entity should disclose additional information in the Notes to enable users of financial statements to understand the risk that it might be necessary to pay the liability within 12 months after the reporting date. In particular, it would be necessary to disclose information on essence of covenants, when the entity has to execute the covenants, carrying amount of respective liabilities, facts and circumstances indicating that the entity may face difficulty to execution of covenants, including those that can be measured as at the end of reporting period.

These amendments are applicable for annual periods starting as of January 1, 2023, or at a later date. The bank reviews possible effect of these amendments to current classification of liabilities.

6. Significant accounting assumptions and estimates

The Bank applies assumptions and estimates, influencing the amounts, disclosed in the financial statements, book value of assets and liabilities during subsequent financial year. Assumptions and estimates are regularly reviewed and based on previous experience of management and other factors, including effect of future events, reasonable in current situation. In addition to assumptions based on accounting estimates, management of the Bank uses professional judgements for accounting policies applied. Professional judgements, materially influencing amounts, disclosed in financial statements, and estimates, which may result in significant adjustments of book values of assets and liabilities in the subsequent financial year, include:

In February 24, 2022, Russian Federation started full-scope military aggression against Ukraine, As a result, Decree of President of Ukraine №64/2022 declared martial law in Ukraine as of 5.30 AM of February 24. As at the date of preparation of these financial statements, active hostilities continue in Donetsk, Zhaporizhia, Luhansk and Kherson oblasts. Ukrainian troops liberated Kyiv. Chernihiv and Sumy oblasts, larger parts of Kharkiv and Mykolaiv oblasts, right-bank of Kherson oblast. Ukrainian Armed Forces heroically oppose, but some Ukrainian territories are occupied by invaders. Ukrainian Armed Forces heroically oppose, but some Ukrainian territories are occupied by invaders. Russian troops continue shelling and missile bombing of whole Ukrainian territory, destroying civil infrastructure in the country, including hospitals and residential areas, logistic infrastructure, fuel storages and oil refineries as well as other industrial sites. As of October 10, 2022, russian troops regularly shelled by missiles in masse and methodically critical power infrastructure of Ukraine, ruining over 40% of electric power objects in different regions of the country. As of October 20, Ukraine introduces limits to powers supply – population and business has to adapt to power shutoffs, absence of water supply and heating. Due to efforts of Ukrainian power engineers, infrastructure was restored after attacks – all types of generation are engaged in power supply for the country. It made it possible to stop fan-like shutoffs and renew street lighting and electric transport. At the onset of war, russian troops blocked all seaports in Black and Azov seas, thus making it impossible to use them for export-import transactions and limiting foreign trade of Ukrainian entities. In order to ensure food safety in the world, with the assistance of United Nations Organization and Turkey, on July 22, 2022, a treaty on safe transportation of grain and foodstuffs (so-called grain treaty) was signed in Istanbul. Term of the grain treaty was 120 days and was extended two times in spite of blackmail of the aggressor country.

In the situation od full-scale military aggression the major aims of the Bank are to ensure uninterrupted fulfilment of critical functions and operations in major lines of business, as well as safety of personnel and their families. Business and operation processes of the Bank were adapted keeping war in mind, thus making it possible to execute all key bank operations. Key management and operating personnel are accessible providing for manageability of the organization and execution of all critical processes of the Bank. Major part of key management and operating personnel were relocated to safer regions after commencement of hostilities. Most of Bank managers returned to Kyiv by the end of the first half year. As at the date of preparation of these financial statements, the system of duplicating (interchangeability) of key operating personnel who preferred to stay in Dnipro and Kyiv regions continues to function. Managing bodies of the Bank also adapted to martial law challenges: Supervisory Board, Management Bords and all committees work both in walk-in mode and videoconferences and absentee voting. Bank management regularly takes decisions regarding immediate reaction to all current challenges.

As at December 31, 2022, the Bank network consists of 28 separated branches. The Bank approved to close 4 branches after commencement of hostilities as a result of absence of economic/strategic expediency of their functioning: Maidan of Independence (Kyiv), Central (Kharkiv), Central (Zaporizhzhia) and Kirovske (Dnipro). Besides, the Bank approved the decision to open Pechersk (Kyiv) branch and branch in Khmelnitsky (to service customers relocated from regions of hostilities). The Bank also works to launch branches in Lutsk and Uzhhorod (to be used as a stand-by site for work of BCP office). The Bank takes decisions on the number and schedule of work of its branched on daily basis based on safety of personnel and business needs.

Some branches located in the areas of active hostilities or missile shelling were damaged (by blast waves and fragments): Kharkiv, Nikopol, Marganets. The Bank arranged for repairs of these branches (replacement of windows and correction of minor damage). Besides, one of the ATMs was damaged in Dnipro (airport territory). Actual losses caused by the above (namely, respective provision) are UAH 383 thousand.

After commencement of hostilities, the Bank approved the decision to stop work of all points of cash credit sale (information-and-consulting centres - ICC). ICC equipment was moved to Bank-owned warehouses.

Business and operating processes of the Bank are adapted to continuing hostilities and mass power shutoffs, thus making it possible to perform all key banking transactions. The Bank acquired and installed power generators and Starlink satellite communication systems for Kyiv and Dnipro offices, as well as key branches, providing for uninterrupted operations of the Bank and its key branches in cash of power shutoffs and inaccessibility of other channels of communication.

The Bank joined Power Banking project initiated by NBU. The project is an interconnected network of branches of different Ukrainian banks operating and providing necessary services to customers even in the situations of blackouts. Power Banking network consists of 2 300 branches having alternative power supply and reserved channels of communication, strengthened cash collection and additional personnel. The Bank has 16 branches in this network. Besides, Power Banking project introduced national ATM roaming, enabling customers to get increased amount of cash in ATM of any bank. Due to cooperation with other banking institutions, total number of ATMs in Bank partner network reached 4600 ATMs.

As at the date of preparation of these financial statements, critical infrastructure of the Bank is preserved. Major and stand-by equipment of the Bank, used to ensure business operations and provide necessary services to the Bank customers, is located in Kyiv and Dnipro, working without any interruptions, as well as channels of communication. The Bank established stand-by sites in Lviv in order to provide for uninterrupted processing of payments in NBU and SWIFT systems. Keu information systems of the Bank were moved to Microsoft Azure cloud.

As a result of military aggression, the Bank introduced stricter approaches to management of all significant risks. The Bank reviewed limits of all open risk positions, all open revocable limits under active transactions to limit credit risk in the situation of material uncertainty, introduced stricter requirements to measurement of financial position and structuring contracts under credit transactions with Bank customers.

At the commencement of war, the Bank introduces the program of credit holidays for individual borrowers. The procedure of automatic withdrawal was suspended, communication with customers was temporarily suspended, too. Initially, credit holidays were presented to corporate customers in all business segments. In July 2022, the Bank launched a program of restructuring of individuals' loans and, as of 4th quarter of 2022, program, of refinancing of doubtful loans, thus significantly improving the quality structure of loan portfolio and prevent further accumulation of NPL. As of the 4th quarter of 2022, the Bank renewed crediting of individuals through traditional channels and products.

In order to reduce credit risks and support SMEs, the Bank joined state programs of crediting *Affordable Loans 5-7-9* and issuance of state guarantees on portfolio basis.

Key task for 2023 is to ensure continuing operations, development of remote sale channels in all segments, maintaining market share of the Bank (mostly liabilities),control of efficiency with focus on CIR ratio based on current infrastructure and minimal investments; diversification of loan portfolio, crediting agricultural sector in new regions, increase of scope and development of new channels of crediting of retail customers; increase of non-interest income, increase of scope of liabilities though work with existing customers, active growth of diversified MSB resources.

Safety risks determine prospects of further development of Ukrainian economy. Intensification and continuation of war, higher than expected deficit of electric power through acts of russian terrorism may significantly limit economic activities and increase inflation pressure. There are other actual risks, which, if realized, may cause the review of key macroeconomic indices, namely, origination of additional budget needs and formation of significant quasi-fiscal deficits in electric power sphere through unforeseeable nature of war; delay of return of large number of people to Ukraine and potential additional migration from Ukraine limiting consumers' demand and threatening growth of structural problems at labour market and decrease of economic potential; irregular inflow of external financing; complications in work of grain corridor. On the other hand, quick implementation of rehabilitation plan for Ukraine with respective inflow of official and private financing may significantly improve economic growth.

As at the date pf preparation of these financial statements, ability of the Bank to continue as going concern is not affected significantly, still, military aggression of russia against Ukraine may significant impact financial position and performance of the Bank, creating a material uncertainty that may cast a significant doubt regarding the ability of the Bank to continue as going concern in future. As a result of hostilities and their possible future escalation, the Bank may suffer losses through difficulties in compensation of assets or non-payment of debts by corporate and individual customers, registered in occupied territories or territories under hostilities, who may have lost the possibility to engage in business and stable source of income. The losses may be also incurred through physical loss of assets, providing for execution of critical functions and business along major lines of Bank operations. Such losses may affect ability of the Bank to continue as going concern.

Management of the Bank prepared these financial statements based on going concern principle. In forming this professional judgement, Bank management took into account actual results of the Bank during the period after commencement of military aggression, consistency of acts by Bank Shareholder in financial support of the Bank, measures taken by the President, government, regulator and Bank management, large-scale international support, etc. These factors provide for reasonable assurance to management regarding ability of the Bank to continue as going concern.

When making this assumption, Bank management took into account the factors, described below, and concluded that going concern basis for preparation of these financial statements is reasonable.

Capital. Supervisory Board of the Bank (minutes №29 of 21.10.2021) approved Program of capitalization/restructuring of JSC "BANK CREDIT DNEPR" for the period up to 30.06.2022 (Capitalization program), reviewed and approved by decision of NBU Board. Capitalization program included sale of nonspecialized assets, namely land plots, transferred to and owned by the Bank as mortgagor, for total of UAH 500 million by 01.01.2022. In September-December 2021, the Bank sold these land plots, generating profit of UAH 2,2 million. In addition to sale of these land plots, the Bank sold in September-December of 2022 nonspecialized assets, which reduced equity, for total of UAH 26,1 million, generating sale profit of UAH 3,4 million. Besides during February-June 2022 the Bank sold nonspecialized assets under contracts signed before russian military aggression for total of UAH 19,5 million. As a result, as at the date of termination of Capitalization program as at 01.01.2022 the Bank implemented all steps reaching required level of regulatory capital adequacy H2=18.9% and basic capital adequacy H3=9.5%, while need in capital was reduced regarding regulatory capital adequacy H2 to 10% and basic capital adequacy H3 to 7%.

Due to channelling of retained earnings by the Shareholder of the Bank to reserve fund of the Bank (UAH 56,6 million) and coverage of losses of previous periods (UAH 420 million), the structure of regulatory capital of the Bank as at 31.12.2022 improved significantly, thus increasing strength of the Bank regarding regulatory capital adequacy. As at 31.12.2022 regulatory capital adequacy (H2) was 23,61%, while basic capital adequacy (H3) was 18,50%.

Management of the Bank believes that consistent financial support of the Bank by the Shareholder provides adequate confidence regarding ability of the Bank to continue as going concern.

Quality of loan portfolio. Assessing quality of loan transactions, the Bank complies with principle of prevalence of essence of active transactions over their form, meaning, inter alia, that Bank performs complete and adequate credit risk assessment when determining credit risk for particular assets both individually and as an aggregate, based on own experience and judgement of management on the materiality of effect of certain factors on quality of the asset.

As at December 31, 2022, some loans were issued to the borrowers, operating in areas, which, as at the date of preparation of these financial statements, suffer (suffered) from hostilities or are temporarily occupied by Russian aggressors. When calculating ECL under the loans, the Bank took into account ability of the borrowers to generate cash flows to repay/service debts, depending on their location in relation to occupied territories and territories under hostilities, and evidence of their adaptation to new conditions for their operation. Still, taking into account that as at the date of signing of these financial statements the hostilities continue and there is a risk of increase of respective territories through escalation of hostilities and further modification of business environment that may significantly affect the ability of the Bank borrowers to service their loans.

Bank management took into account all known and estimated risk factors as at the reporting date and used professional judgment when measuring impairment of the above loans. Anyhow, as a result of hostilities and their further escalation, the Bank may suffer losses because of difficulties in compensation of assets, located in the above territories or non-payment of debts under loans by entities, located there, or debtors that lost the possibility to engage in uninterrupted business and stable source of income. These losses may affect ability of the Bank to continue as going concern.

Future cash flows, calculated when measuring Bank assets, that can be formed by enforcement of collection of mortgaged property, are calculated taking into account available legal possibilities for the Bank to exercise a right of mortgagor based on quality of debt servicing by a borrower and situation with court claims related to problematic assets and liquidity rate of mortgaged property, as well as Bank experience in sale of collateral of a certain type in accordance with its general characteristics and properties. Any potential or actual limitations to exercise aright of mortgagor, which might be treated as temporary or might not be treated as permanent, are considered during measurement of assets, taking into account details described above, based on Bank experience. If such limitations become permanent, as the Bank loses the right to collect the collateral, they might increase expense of the Bank and affect the ability of the Bank to continue as going concern.

(UAH’000 if not stated otherwise) - Translation from Ukrainian original

Liquidity. One of major impacts of military aggression is increase of probability that specific or market liquidity risk may arise, resulting in overall increase of liquidity risk through outflow of customers’ funds, decrease of proceeds from assets and impossibility to settle liabilities in time. As at December 31, 2021, and the date of start of military aggression, i.e. February 24, 2022, the Bank has high level of liquidity, as confirmed by its liquidity ratio. As at December 31, 2022, liquidity of the Bank and liquidity ratio are stable and high:

	31.12.2021	*23.02.2022*	*31.12.2022*
LCRac (>100%)	174%	178%	224%
NSFRac (>90%)	143%	155%	163%

The above level of liquidity is the result of positive actions of management to provide for diversified and stable sources of financing, establishment of significant reserve of highly liquid assets in order to ensure uninterrupted payments by Bank customers.

NBU, government and Deposit Guarantee Fund (DGF) played an important role in stability of liquidity of financial system of the country, introducing timely and coordinated anti-crisis measures. DGF guarantees compensation of 100% of deposits of individuals during period of martial law + 3 months after with subsequent gradual increase of guaranteed amount would go up 3 times up to UAH 600 thousand. Effective actions by Ukrainian top management helped to stop panics of customers and followed by steps taken by management of the Bank, made it possible to assess liquidity risk as at the date of preparation of financial statements as moderate.

Still, as hostilities continue and may further cover new areas, creating the risk that entities might lose the ability to continue their operations, while their personnel and owners might lose sources of their income, the customers might start to use their accumulated reserves of liquidity to cover necessary expenses, it may decrease stability and liquidity of the Bank and affect the ability of the Bank to continue as going concern.

Anyhow, management of the Bank believes that consistent financial support of the Bank by the Shareholder provides adequate confidence regarding ability of the Bank to continue as going concern.

Mandatory provisioning. In accordance with NBU requirements mandatory provisioning of the Bank is calculated as a percent of certain liabilities of the Bank for previous month of provisioning. Currently, NBU does not require to keep funs of mandatory provisioning at separate account in NBU. As at December 31, 2022, the Bank complied with requirements to mandatory provisioning. As of January 2023, NBU increased rate of mandatory provisioning by 5 percent and permitted the banks to cover 50 % of total mandatory provisioning at the expense of state bonds benchmark. Besides, as of March 2022 mandatory reserves under funds on demand and funds at current accounts of individuals in local and foreign currencies increased by 10 percent. Still, this part of reserves is not covered by mechanism of coverage for state bonds benchmark. Ratio of mandatory provisioning under deposits of individuals with maturity over 93 calendar days did not change being for funds in local currency 0 % and foreign currency - 10 %. The Bank investigates the possibility to increase rates under currency term deposits and change of deposit structure in their favour to reduce the effect of this factor.

Losses through impairment of loans and advances to customers

The Bank regularly analyses its loan portfolio for impairment. When concluding whether it is necessary to disclose impairment losses in income or losses of the year, the Bank uses as assumption regarding existence of data indicating decrease of estimated future cash flows under loan portfolio, which may be measured before the decrease can be correlated with a specific ass in the portfolio. The indicators may include existing data, showing negative changes in solvency of debtors within the group, or national or local economic environment, correlating with defaults of assets within the group. When estimating future cash flows, management uses estimates, based on previous experience of losses for assets, characterized by credit risk and objective indicators of impairment, similar to specific portfolio.

Methodology and assumptions, used to assess both terms and amounts of future cash flows, are regularly reviewed to decrease any difference between estimated losses and actual experience of losses. When preparing these financial statements, management used assumptions regarding estimation of future cash flows under credits, taking into account realized restructuring of credits and restructuring under discussions with customers. Future cash flows under credits include, inter alia, the flows that may originate in case of restructuring of assets, currently not served, if the Bank has objective evidence and supporting documents. When forming estimates of future cash flows, the Bank takes into account effect of hostilities massed missile shelling of critical infrastructure on key macroeconomic indicators and conditions of business of the debtor without forecasting possible effects of possible escalation of hostilities. If the hostilities escalate with subsequent increase of damage to objects of critical infrastructure and changes of estimated cash flows under realized restructurings, including quality of debt servicing, change, the necessary provisions may be increased.

Fair value of collateral is taken into account during calculation of expected credit losses for loans, measured individually, and measured in accordance with regular property revaluations by appraisers or respective Bank employee with appraiser certificate. Adequacy of collateral to be used during assessment of future losses is measured, taking into account the factors indicating the possibility for the Bank to apply the right of mortgagee irrespective of stage of litigation and term of collection.

The Bank, in the situation of martial law, applies a judgment for ECL calculation on correspondence of mortgaged property to criteria and principles of appropriateness of collateral based on all available information, including public information and/or information of the borrower/mortgagees on the property, located in the territories that suffer/suffered hostilities. The Bank implemented measures for correct assessment of actual state and value of mortgaged property used to calculate ECL, namely:

- The Bank checked the existence and state of property and appraised it in relatively safe regions;
- The Bank implemented a mechanism of monitoring of state of collateral by questioning of borrowers/mortgagees on actual state of mortgaged property during martial law in regions and locations that seriously suffer/suffered hostilities.

The Bank questioned all debtors on current state of mortgaged property and existence of control over it. Based on results of questioning and taking into account events from the reporting date to the date of actual accrual of allowances, the Bank, as at 31.12.2022, excluded from calculation of ECL the mortgaged property (forecasted cash flow from its sale) with the evidence of its poor physical conditions and loss of control by mortgagees.

Other mortgaged property, checked for existence and state by the Bank and revalued, or/and being in good state controlled based on results of questioning, is viewed as acceptable and is taken into account for calculation of ECL.

Still, the process if monitoring is not over, since it is continuous, meaning that when additional information, disclosing inacceptable state of collateral, presented to the Bank, becomes known, the collateral will be excluded from ECL calculation as at the next reporting date after receipt of respective information.

Net carrying amount of assets disclosed at 3rd state of impairment as at December 31, 2022, is UAH 244 699 thousand (including UAH 71 857 thousand for borrowers, located in territories temporarily occupied by russia after 24.02.2022 or in the active hostilities areas, including those taken into account when calculating probable cash flows from sale of collateral for measurement of ECL).

The Bank believes that accounting estimates related to allowances for ECL are major source of uncertainty of measurement, since they are extremely sensitive to changes from period to period, as assumption on future level of non-execution of liabilities and measurement of potential losses, caused by impairment of loans and funds issued, is based on the latest KPIs of the Bank, while any significant difference between ECL (disclosed as allowance) and actual losses would cause the Bank to form additional allowances, which, in case of significant difference, may materially affect its statement of profit and loss and other comprehensive income and statement of financial position in future periods. Scope of allowances for impairment of financial assets, disclosed in the financial statements, was measured based on current economic and political conditions, keeping in mind forecasted changes of macroeconomic indicators, stated in open sources of information, without accounting for effect of possible escalation of hostilities resulting from military aggression of russian federation against Ukraine. The Bank cannot predict future changes in economic and political situation in Ukraine, including those resulting from escalation of military aggression, and their impact on adequacy of allowances for ECL in future periods. Still, when measuring ECL as at the reporting date, the Bank took into account all existing information on past events that was actual as at the reporting date and formed an experience of operations of the Bank during antiepidemic measures, implemented in 2020-2021, and 2022 martial law, adjusting scope of probable losses under active transactions by effect of negative macroeconomic scenarios.

Recognition of deferred income tax assets

Recognized deferred tax assets represent the amount of income tax that may be used to offset future income tax; it is disclosed in the statement of financial position. Deferred tax asset may be recognized for all deductible temporary differences, if it probable that taxable income, against which the temporary difference may be used, would be generated. Assessment of future taxable income and deferred tax asset to be used in future is based on the financial model of the Bank, using priority business lines until 2027, prepared by management and approved by the Board, and results of extrapolation to future periods. The financial model is based on management estimates, reasonable under current situation.

It is expected that the Bank shall generate stable income in future. Major assumptions, used in the financial model, include expected stabilization of Ukrainian economy and avoidance of stress development scenarios, moderate growth of loan portfolio and interest income, organic growth of commissions and sales income for all business lines, gradual decrease of interest rated under attracted resources and continuing expense control. Taking into account planned future profits and absence of limitation regarding period of tax loss carry-forward by current Ukrainian tax laws, the management believes that recognition of deferred income tax asset in an amount of UAH 269 437 thousand as at December 31, 2022 (Note 15).

Tax laws. Tax, currency and Customs laws of Ukraine allows for difference of interpretations.

Recognition of related-parties' transactions

The Bank is engaged in related-parties' transactions during usual business. IFRS 9 requires to recognize financial instruments at fair value at initial recognition. If there is no active market for such transactions, professional judgements should be used to determine whether the transactions were based on market or non-market rates. Basis for the judgements is pricing of this type of transactions compared to arm's length transactions and analysis of effective interest rate. Terms of related-parties' transactions are described in Note 30.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Fair value of financial instruments

If fair value of financial assets and financial liabilities, disclosed in the statement of financial position, cannot be measured based on active market prices, it is measured, using different models, including mathematical ones. Input data for such models are based on observable market data, if possible; otherwise, judgements should be used to measure the fair value. Judgements are based on data on liquidity risk, credit risk and volatility. Changes of assumptions related to these factors may influence fair value of financial instruments, disclosed in financial statements (Note 32).

Revaluation of buildings and investment property

Buildings, occupied by the owner (the Bank), are recorded at revalued value equal to fair value as at the date of appraisal net of accumulated depreciation and impairment loss.

Investment property is disclosed at fair value.

In 2022, the Bank engaged independent appraisers to determine fair value of buildings, occupied by the owner, and investment property. Based on the results of appraisal, Bank management decided to adjust value of objects where fair value significantly differs from their book value. During appraisal, independent appraisers use professional judgements and estimates to select analogous buildings, land plots and integral property complexes to be used, when method of market analogues and useful lives of revalued assets is applied.

Changes of fair value of buildings, occupied by the owner, are recognized in other comprehensive income, while changes of fair value of investment property is recognized in income or losses (Notes 11 and 14). The appraiser used market methods, bases on analysis of comparative sales of similar buildings and structures, for measurement of fair value.

Lease

The Bank defines lease term as not subject to early termination, as well as periods with option to extend the lease or option to terminate the lease, if there is a reasonable Assurance with the Bank shall execute these options.

Under several lease agreements, the Bank has options to expend lease of property where Bank branch banks are located. The Bank usually uses these options to extend lease term as there is no possibility to easily change these assets which would adversely affect Bank's operating activities.

Discounting of lease liabilities is based on the rate calculated each quarter using fair value of state public bonds by currencies and terms, adjusted by risk premium. If there is no profitability rate for state public bonds, adjusted for the term corresponding to lease term, discounting shall be based on current profitability rate adjusted for maximally close known term.

7. Cash and cash equivalents

	2022	***2021***
Cash	121 428	111 486
Correspondent accounts, deposits and overnight loans with other banks	6 164 308	1 200 212
NBU deposit certificates	5 356 742	4 802 422
Cash and cash equivalents	**11 642 478**	**6 114 120**
Allowance for expected credit losses	(12 826)	(2 042)
Total cash and cash equivalents	**11 629 652**	**6 112 078**

As at December 31, 2022, equivalent of UAH 5 221 696 thousand (2021: UAH 1 148 652 thousand) was kept at current and deposit accounts of banks of OECD countries, being major counterparts of the Bank for international settlements.

Credit quality of cash and cash equivalents (except for cash in hand) as at December 31 is presented below:

	2022	***2021***
AA/AA-	1 653 758	1 023 889
A/A-	15 217	42 499
BBB+/BBB-	3 552 736	82 125
BB+	328	427
B/B-	-	8 048
CCC+/CCC-	24 964	-
National Bank of Ukraine	6 261 906	4 845 558
Non-rated	12 141	88
Cash and cash equivalents (except for cash in hand)	**11 521 050**	**6 002 634**
Allowance for expected credit losses	(12 649)	(2 042)
Total cash and cash equivalents (except for cash in hand)	**11 508 401**	**6 000 592**

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Credit rating is based on Fitch international rating agency, if any, or other international rating agencies, converted to the closest equivalent of Fitch rating scale.

Changes in gross carrying amount and expected credit losses (ECL) of cash and cash equivalents (except for cash in hand) as at December 31, 2022, are presented below:

	12-months ECL	
Cash and cash equivalents (except for cash in hand)	*Gross carrying amount*	*Allowance*
Opening balance	**6 002 634**	**2 042**
Settled or sold assets	(730 747 129)	(858)
Increase through issuance or acquisition	730 774 509	858
Increase (decrease) through exchange rate differences	1 910 007	2 514
Increase (decrease) through other changes	3 581 029	8 093
Closing balance	**11 521 050**	**12 649**

Changes in gross carrying amount and expected credit losses (ECL) of cash and cash equivalents (except for cash in hand) as at December 31, 2021, are presented below:

	12-months ECL	
Cash and cash equivalents (except for cash in hand)	*Gross carrying amount*	*Allowance*
Opening balance	**2 257 946**	**2 827**
Settled or sold assets	(278 005 326)	(730)
Increase through issuance or acquisition	281 595 482	-
Increase (decrease) through exchange rate differences	(12 396)	(55)
Increase (decrease) through other changes	166 928	-
Closing balance	**6 002 634**	**2 042**

In 2022 and 2021, there were no transfers between stages of impairment. Expense related to allowance for ECL in 2022 were UAH 8 093 thousand (2021: decrease in expense related to allowance for ECL of UAH 730 thousand).

8. Due from other banks

	2022	*2021*
Guarantee deposits in other banks	111 237	1 175 260
Due from other banks	**111 237**	**1 175 260**
Allowance for expected credit losses	(778)	(1 811)
Total due from other banks	**110 459**	**1 173 449**

Guarantee deposits in other banks as at December 31, 2022:

	2022			
	Ukraine	*OECD*	*Other*	*Total*
Pay card transactions	5 681	73 320	-	**79 001**
Documentary transactions	-	15 581	16 191	**31 772**
Transfer-systems transactions	464	-	-	**464**
Total guarantee deposits in other banks	**6 145**	**88 901**	**16 191**	**111 237**

Guarantee deposits in other banks as at December 31, 2021:

	2021			
	Ukraine	*OECD*	*Other*	*Total*
Collateral for liabilities under refinancing loan	401 994	-	-	**401 994**
Collateral for liabilities under interest rate swap transactions	143 210	-	-	**143 210**
Card transactions	6 934	54 692	-	**61 626**
Documentary transactions	-	214 928	353 002	**567 930**
Transfer systems transactions	500	-	-	**500**
Total guarantee deposits in other banks	**552 638**	**269 620**	**353 002**	**1 175 260**

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Terms of repayment of deposits, concentration of currency risks, and other risks are disclosed in Note 29.

Analysis of cash in other banks by credit quality as at December 31, is presented below:

	2022	*2021*
A+/A-	16 191	355 115
BBB+/BBB-	88 901	267 507
B+/B-	-	6 934
CCC+/CCC-	5 681	-
National Bank of Ukraine	-	545 204
Non-rated	464	500
Due from other banks	**111 237**	**1 175 260**
Allowance for expected credit losses	(778)	(1 811)
Total due from other banks	**110 459**	**1 173 449**

Credit rating is based on Fitch international rating agency, if any, or other international rating agencies, converted to the closest equivalent of Fitch rating scale.

Changes in gross carrying amount and expected credit losses (ECL) of due from other banks as at December 31, 2022:

	12-months ECL	
Cash and cash equivalents (except for cash in hand)	***Gross carrying amount***	***Allowance***
Opening balance	**1 175 260**	**1 811**
Settled or sold assets	(1 887 728)	(2 104)
Increase through issuance or acquisition	864 509	858
Increase (decrease) through exchange rate differences	182 240	213
Changes of carrying amount during the period	(223 044)	-
Closing balance	**111 237**	**778**

Changes in gross carrying amount and expected credit losses (ECL) of due from other banks as at December 31, 2021:

	12-months ECL	
Cash and cash equivalents (except for cash in hand)	***Gross carrying amount***	***Allowance***
Opening balance	**1 009 049**	**1 911**
Settled or sold assets	(2 599 041)	(925)
Increase through issuance or acquisition	2 827 669	936
Increase (decrease) through exchange rate differences	(62 417)	(111)
Closing balance	**1 175 260**	**1 811**

In 2022 and 2021, there were no transfers between stages of impairment. Decrease in expense related to allowance for ECL for due from other banks in 2022 was UAH 1 246 thousand (2021: expense related to allowance for ECL - UAH 11 thousand).

9. Loans and advances to customers

Loans and advances to customers include:

	2022	*2021*
Loans to legal entities	3 924 130	7 086 691
Loans to individuals	1 178 473	1 211 468
Loans to state bodies	476 537	355 151
Mortgage	18 312	23 423
Loans to customers	**5 597 452**	**8 676 733**
Allowance for expected credit losses	(1 730 439)	(2 962 464)
Total loans to customers	**3 867 013**	**5 714 269**

In the reporting period, the Bank derecognized a part of impaired portfolio of loans to individuals of gross carrying amount of UAH 16 891 thousand (2021: UAH 798 103 thousand) through its sale. Income of UAH 3 881 thousand (2021: UAH 76 313 thousand) was disclosed in Income/loss from derecognition of financial assets at amortized cost item of Statement of profit and loss and other comprehensive income.

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During the reporting period, the Bank derecognized a part of impaired Corporate loans portfolio of gross carrying amount of UAH 219 thousand (2021: UAH 342 thousand) through its modification. The results are disclosed in Income/loss from derecognition of financial assets at amortized cost item of Statement of profit and loss and other comprehensive income.

Gross carrying amount by stages of impairment as at December 31, 2022, is presented below:

	1 stage	2 stage	3 stage	*Total*
Loans to legal entities	2 134 131	720 136	1 069 863	**3 924 130**
Loans to individuals	476 663	24 826	676 984	**1 178 473**
Loans to state bodies	476 537	-	-	**476 537**
Mortgage	9 338	-	8 974	**18 312**
Loans to customers	**3 096 669**	**744 962**	**1 755 821**	**5 597 452**
Allowance for expected credit losses	(133 773)	(85 543)	(1 511 123)	**(1 730 440)**
Total loans to customers	**2 962 896**	**659 419**	**244 698**	**3 867 013**

Increase of net carrying amount of loans at 3rd stage of impairment results from impairment of loans to borrowers operating in territories that, as at the date of preparation of financial statements, are under hostilities or territories temporarily occupied by russian troops, and borrowers who lost stable source of income as a result of full-scale aggression of russian federation. Decrease of gross carrying capacity of loans at 3rd stage of impairment results from write-off of nonperforming assets through use of allowances set in previous periods.

Increase of gross carrying amount of loans at 2nd stage of impairment results from identification of indications of impairment for certain assets as the result of events caused by full-scale aggression of russian federation, in particular, restructuring of loans. It is expected that most borrowers with restructured debts would adapt to new terms of operations and provide for servicing and repayment of their debts in accordance with the terms of loan contract signed.

Gross carrying amount by stages of impairment as at December 31, 2021, is presented below:

	1 stage	2 stage	3 stage	*Total*
Loans to legal entities	4 579 498	121 137	2 386 056	**7 086 691**
Loans to individuals	787 764	24 324	399 380	**1 211 468**
Loans to state bodies	355 151	-	-	**355 151**
Mortgage	3 169	-	20 254	**23 423**
Loans to customers	**5 725 582**	**145 461**	**2 805 690**	**8 676 733**
Allowance for expected credit losses	(233 620)	(49 509)	(2 679 335)	**(2 962 464)**
Total loans to customers	**5 491 962**	**95 952**	**126 354**	**5 714 269**

Analysis of changes of gross carrying amount of loans and due from customers, measured at amortized cost, as at December 31, 2022 , is presented below:

	12-month ECL		*Whole-life ECL*		*Total*	
	GCA	*Allowance*	*GCA*	*Allowance*	*GCA*	*Allowance*
January 1	**5 725 581**	**233 619**	**2 951 152**	**2 728 845**	**8 676 733**	**2 962 464**
Decrease by derecognition	(2 245 000)	(103 910)	(34 104)	(21 802)	**(2 279 104)**	**(125 712)**
Increase by issuance or acquisition	694 169	19 356	-	-	**694 169**	**19 356**
Decrease by write-off	-	-	(2 771 045)	(2 771 045)	**(2 771 045)**	**(2 771 045)**
Increase (decrease) by transfer to other stage	(1 202 020)	(51 195)	1 202 020	51 195	**-**	**-**
Increase (decrease) by exchange rate differences	262 184	6 260	946 282	792 541	**1 208 466**	**798 801**
Change of carrying amount during the period	(138 246)	(8 323)	206 479	142 240	**68 233**	**133 917**
Increase (decrease) for other reasons	-	21 320	-	674 692	**-**	**712 658**
December 31	**3 096 668**	**133 773**	**2 500 784**	**1 596 666**	**5 597 452**	**1 730 439**

Increase (decrease) by transfer to other stage discloses gross carrying amount and related ECL that were at 1st stage of impairment as at December 31, 2021, transferred to 2nd or 3rd stage in 2022. Increase of debt under loans mainly through increase of accrued income is disclosed as change of carrying amount during the period. Increase of ECL as a result of review of estimated cash flows under loans caused by transfer to 2nd or 3rd stage of impairment and revision of effect of macroeconomic factors is disclosed as increase (decrease) for other reasons.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Analysis of changes of gross carrying amount of loans and due from customers, measured at amortized cost, as at December 31, 2021, is presented below:

	12-month ECL		*Whole-life ECL*		*Total*	
	GCA	*Allowance*	*GCA*	*Allowance*	*GCA*	*Allowance*
January 1	**2 462 331**	**118 064**	**4 024 248**	**3 186 038**	**6 486 579**	**3 304 102**
Decrease by derecognition	(749 766)	(44 544)	(851 084)	(532 275)	**(1 600 850)**	**(576 819)**
Increase by issuance or acquisition	2 999 662	103 160	-	-	**2 999 662**	**103 160**
Decrease by write-off	-	-	(532 781)	(351 847)	**(532 781)**	**(351 847)**
Increase (decrease) by transfer to other stage	(87 979)	(5 630)	87 979	5 630	**-**	**-**
Increase (decrease) by change of model or risk parameters	-	38 911	-	(1 661)	**-**	**37 250**
Increase (decrease) by exchange rate differences	(13 674)	(352)	(84 502)	(71 970)	**(98 176)**	**(72 322)**
Change of carrying amount during the period	1 115 007	24 010	127 292	110 278	**1 242 299**	**134 288**
Increase (decrease) for other reasons	-	-		384 652	**-**	**384 652**
December 31	**5 725 581**	**233 619**	**2 951 152**	**2 728 845**	**8 676 733**	**2 962 464**

The Bank reviews preliminary estimates of cash flows under loans to customers in case of modifications agreed by the parties. If modification leads to derecognition, the Bank recognizes a new asset or POCI asset, while the result achieved is recognized as profit or loss from derecognition. The Bank discounts modified cash flows using initial effective interest rate and recognizes profit or loss from modification.

In 2022, as a result of problems with servicing of loans by borrowers caused by military aggression the Bank offered credit holidays for such borrowers and implemented debt restructuring program.

Loan agreements with the term reviewed and income/loss through modification are disclosed below:

	2022	*2021*
Amortized cost before modification	714 489	2 668
Net modification loss	(19 300)	(266)

Changes in allowance for ECL under loans and advances to customers in 2022:

	Corporate loans	**Loans to individuals**	**Mortgage**	***Total***
January 1	**2 483 653**	**460 873**	**17 938**	**2 962 464**
1 stage	161 581	72 024	15	233 620
2 stage	31 267	18 242	-	49 509
3 stage	2 290 805	370 607	17 923	2 679 335
Allocation to allowance	349 403	274 779	3 424	**627 606**
Adjustment of interest income under impaired loans	93 167	28 358	1 760	**123 285**
Derecognized	(10 672)	-	-	**(10 672)**
Write-off through use of allowance	(2 663 996)	(84 619)	(22 430)	**(2 771 045)**
Exchange rate differences	775 360	17 158	6 283	**798 801**
December 31	**1 026 915**	**696 549**	**6 975**	**1 730 439**
1 stage	**75 727**	**57 906**	**140**	**133 773**
2 stage	**65 037**	**20 506**	**-**	**85 543**
3 stage	**886 151**	**618 137**	**6 835**	**1 511 123**

Allocation to allowances includes compensation of UAH 267 thousand under written-off corporate loans received by the Bank in 2022 (2021: UAH 5 466 thousand) and UAH 51 thousand under written-off loans to individuals (2021: UAH 944 thousand). Amounts compensated were credited to item *Restoration/ (Allocation to) allowance for ECL under financial instruments* as a component of profit or loss of the period.

In the reporting period the Bank written off impaired financial assets in accordance with criteria, set by Decree of the Board of National Bank of Ukraine №49 of 13.04.2020, in an amount of UAH 2 771 045 thousand (2021: UAH 350 850 thousand), continuing to take necessary steps to compensate written-off debt.

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Changes in allowance for ECL under loans and advances to customers in 2021:

	Corporate loans	Loans to individuals	Mortgage	*Total*
January 1	**2 661 134**	**621 445**	**21 523**	**3 304 102**
1 stage	88 248	29 793	23	**118 064**
2 stage	1 893	20 985	-	**22 878**
3 stage	2 570 993	570 667	21 500	**3 163 160**
Allocation to allowance	441 561	186 810	8 873	**637 244**
Adjustment of interest income under impaired loans	75 706	35 290	1 312	**112 308**
Derecognized	(447 926)	(204 195)	-	**(652 121)**
Write-off through use of allowance	(162 743)	(175 089)	(13 018)	**(350 850)**
Exchange rate differences	(84 079)	(3 388)	(752)	**(88 219)**
December 31	**2 483 653**	**460 873**	**17 938**	**2 962 464**
1 stage	**161 581**	**72 024**	**15**	**233 620**
2 stage	**31 267**	**18 242**	**-**	**49 509**
3 stage	**2 290 805**	**370 607**	**17 923**	**2 679 335**

As at December 31, 2022, accrued interest income under loans at 3 stage of impairment was UAH 360 676 thousand (2021: UAH 1 044 798 thousand).

Amount and type of collateral, demanded by the Bank, depends on measurement of credit risk of a counterpart. The Bank set the principles of acceptance of different types of collateral and parameters of measurement. Major types of collateral for loans to legal entities and individuals are cash, mortgage of property, surety of individuals and legal entities; still, sureties and property rights under contracts are not taken into account for calculation of allowance for expected credit losses.

Effect of collateral as at December 31, 2022:

	Gross carrying amount of loans	***Estimated cash flows from sale of collateral***
Corporate loans	3 924 130	1 707 526
Loans to individuals	1 178 473	9 612
Loans to state bodies	476 537	476 537
Mortgage	18 312	16 441
Loans and advances to customers	**5 597 452**	**2 210 116**

Effect of collateral as at December 31, 2021:

	Gross carrying amount of loans	***Estimated cash flows from sale of collateral***
Corporate loans	7 086 691	2 059 884
Loans to individuals	1 211 468	8 932
Loans to state bodies	355 151	355 151
Mortgage	23 423	5 218
Loans and advances to customers	**8 676 733**	**2 429 185**

In 2022, the Bank acquired title for mortgaged property under loans and debts of customers in an amount of UAH 12 462 thousand (2021: UAH 96 014) (Notes 12, 16).

Concentration of loans and advances to customers

The loans to 5 largest groups of customers total UAH 1 191 287 thousand or 21,3% of total loans to customers as at December 31, 2022 (2021: UAH 2 582 930 thousand or 29,8%).

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Loan portfolio of the Bank by industries:

	2022	*2021*
Agriculture	1 604 923	1 590 775
Individuals	1 196 785	1 234 891
Wholesale and retail trade	677 165	1 585 285
Processing industry	575 772	2 775 040
State bodies	476 537	355 151
Mining and quarrying	453 724	386 809
Transportation and warehousing	236 970	230 442
Financing and insurance	176 138	128 833
Property transactions	116 484	103 588
Lodging and catering	67 167	65 883
Administrative and auxiliary services	10 368	11 034
Supply of electric power, gas, steam and conditioned air	5 222	105 398
Wastes processing	197	208
Construction	-	102 199
Art, sports, entertainment, holidays	-	774
Professional, R&D activities	-	423
Loans and advances to customers	**5 597 452**	**8 676 733**

As at December 31, 2022 and 2021, there were no loans used as collateral for any Bank liabilities.

Analysis of loans by maturity, interest rates and currencies are presented in Note 29.

10. Investments in securities

Investments in securities include:

	2022	*2021*
Debt securities	2 134 649	5 543 673
At fair value through profit or loss	*-*	*4 783*
At fair value through other comprehensive income	*1 994 671*	*5 410 323*
At amortized cost	*139 978*	*128 567*
Equity instruments	308	308
Investments in securities	**2 134 957**	**5 543 981**
Allowance for expected credit losses	(54 661)	(2 094)
Total investment securities	**2 080 296**	**5 541 887**

The Bank took a decision to classify equity instruments as those measured at fair value through other comprehensive income, since they are not intended for sale. These investments represent mandatory investments into equity of exchanges and clearing centres.

During the reporting period ended on December 31, 2022, the Bank received dividend income of UAH 0 thousand (2021: UAH 36 thousand), included into other operating income in the statement of profit and loss.

As at December 31, 2022, the Bank transferred securities of book value of UAH 1 226 570 thousand to National Bank of Ukraine as collateral under refinancing loan (Note 17) and UAH 170 328 thousand under agreement on interest rate swap transactions (2021: UAH 0 thousand).

Changes in fair value of debt securities, measured at fair value through profit and loss as at December 31:

	2022	*2021*
January 1	**4 783**	**522 605**
Repaid or sold assets	(41 589)	(786 438)
Increase by issuance or acquisition	36 477	236 769
Increase (decrease) by exchange rate differences	319	159
Changes of carrying amount during the period	10	31 688
December 31	**-**	**4 783**

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Changes in fair value of debt securities, measured at fair value through other comprehensive income as at December 31:

	2022	*2021*
January 1	**5 410 323**	**3 210 337**
Repaid or sold assets	(5 211 071)	(5 666 255)
Increase by issuance or acquisition	1 428 581	7 487 857
Increase (decrease) by exchange rate differences	27 455	(14 058)
Changes of carrying amount during the period	339 383	392 442
December 31	**1 994 671**	**5 410 323**

As at December 31, 2022, the Bank recognized ECL under securities at fair value through other comprehensive income of UAH 20 101 thousand (2021: UAH 3 546 thousand) as a component of other comprehensive income.

Changes in gross carrying amount and ECL of debt securities at amortized cost as at December 31, 2022:

	12-month ECL		*Whole-life ECL*		*Total*	
	GCA	*Allowance*	*GCA*	*GCA*	*Allowance*	*GCA*
January 1	**128 567**	**2 094**	**-**	**-**	**128 567**	**2 094**
Repaid or sold assets	(5 385)	-	-	-	**(5 385)**	**-**
Increase (decrease) by transfer to other stage	(130 222)	(2 448)	130 222	2 448	**-**	**-**
Changes of carrying amount during the period	7 040	354	9 756	52 213	**16 796**	**52 567**
December 31	**-**	**-**	**139 978**	**54 661**	**139 978**	**54 661**

Changes in gross carrying amount and ECL of debt securities at amortized cost as at December 31, 2021:

	12-month ECL		*Whole-life ECL*		*Total*	
	GCA	*Allowance*	*GCA*	*GCA*	*Allowance*	*GCA*
January 1	**320 535**	**1 790**	**-**	**-**	**320 535**	**1 790**
Repaid or sold assets	(471 734)	(188)	-	-	(471 734)	(188)
Increase (decrease) by transfer to other stage	251 683	492	-	-	251 683	492
Changes of carrying amount during the period	28 083	-	-	-	28 083	-
December 31	**128 567**	**2 094**	**-**	**-**	**128 567**	**2 094**

Expense under allowance for ECL in 2022 were UAH 52 567 thousand (2021: UAH 492 thousand).

Analysis of securities by maturities, interest rates and currencies are presented in Note 29.

11. Investment property

Investment property is disclosed in statement of financial position at fair value.

Changes in fair value of investment property:

	2022	*2021*
January 1	**484 900**	**1 239 094**
Disposal	(59 480)	(601 641)
Profit (loss) through adjustment of fair value	(188 620)	(126 880)
Transfer to assets held for sale	-	(25 673)
December 31	**236 800**	**484 900**

Operating expense and expense on maintenance of investment property in 2022 were UAH 8 302 thousand (2021: UAH 10 047 thousand).

In 2022, the Bank generated lease-related income and compensation of costs of maintenance of UAH 6 349 thousand (2021: UAH 7 941 thousand).

If a property is partially occupied by the owner and partially leased, non-complying with criteria of allocation for recognition as investment property, the Bank recognizes the object as property occupied by owner.

In 2022 and 2021, the Bank engaged independent appraisers to measure fair value of investment property, and, based on results of appraisal, Bank management took decision to adjust value of objects where fair value significantly differs from book value. Adjustment of book value resulted in recognition of loss of UAH 188 620 thousand (2021: loss of UAH 126 880 thousand), disclosed in statement of profit and loss and other comprehensive income.

Profit and loss through disposal of investments property are disclosed in Note 26.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

12. Other assets

	2022	*2021*
Other financial assets		
Receivables under settlements with banks	37 944	331 287
Cash and cash equivalents limited in use	31 334	23 161
Deferred income	15 381	145 696
Receivables under settlements with customers	157	595
Balances at transit accounts for transactions with pay cards	-	13 123
Other financial assets	15	8
Other financial assets	**84 831**	**513 870**
Allowance for expected credit losses	(80 017)	(178 874)
Total other financial assets	**4 814**	**334 996**

As at December 31, 2022, balance of funds at correspondent account of the Bank in russian federation is UAH 31 334 thousand or USD equivalent of 557,4 thousand, EUR 51, 5 thousand, RUB 17 634,4 thousand (2021: UAH 23 161 thousand or USD equivalent of UAH 557,3 thousand., EUR 51,5 thousand, UAH 17 487,1 thousand.) with allowance for expected credit losses in amount of UAH 31 334 thousand (2021 p.: UAH 1 390 thousand.)

Decree of government of Russian Federation №1300 of November 1, 2018, introduced a set of special economic measures for legal entities and individuals to block cashless funds, non-documentary securities and property in Russia and prohibition of transfer of funds (withdrawal of capital) out of Russia. As these sanctions cover the Bank as well, one of correspondent banks in Russia limited use of Bank funds at the correspondent account there. Total balance of funds at the account in this correspondent bank as at 31.12.2022 is UAH 31 317 thousand (USD equivalent of 557,4 thousand); EUR 51,5 thousand; RUB 17 601,2 thousand (2021: UAH 23 138 thousand, or USD equivalent of 557,3 thousand; EUR 51,5 thousand; RUB 17 424,2 thousand). Increase of balance during the reporting period was the result accrual of interest for balances at respective accounts.

Changes in allowance for expected credit losses/impairment loss of other financial and other assets:

	2022	*2021*
As at January 1	**178 874**	**150 067**
Accrual of allowance	33 019	30 258
Written-off through use of allowance	(147 998)	(397)
Exchange rate differences	16 122	(1 054)
As at December 31	**80 017**	**178 874**

	2022	*2021*
Other non-financial assets		
Foreclosed collateral	227 336	212 164
Prepaid services	18 553	19 559
Settlements with bank employees	10 811	8 045
Inventories	3 034	2 522
Taxes and levies, paid in advance, except for income tax	2 379	2 473
Bank metals	673	500
Other assets	**262 786**	**245 263**
Provision for impairment of other assets	(23 153)	(20 285)
Total other assets	**239 633**	**224 978**

Changes in Provision for impairment of other assets:

	2022	*2021*
As at January 1	**20 285**	**22 595**
Accrual of allowance	137	(1 496)
Derecognition	-	(521)
Exchange rate differences	2731	(293)
As at December 31	**23 153**	**20 285**

Simplified approach in accordance with IFRS 9 *Financial Instruments* is used to measure other financial assets, including receivables from customers and banks. As the simplified method is used to measure impairment of financial assets, the Bank recognizes allowance for expected credit losses during the life of the instrument as at each reporting date as of the moment of its recognition.

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During the reporting year, there were the following changes in foreclosed property:

	2022	*2021*
January 1	**212 164**	**179 556**
Foreclosure of mortgaged object	12 687	93 352
Transfer from category of non-current assets held for sale	16 768	-
Sale	(9 630)	(13 712)
Annulment of title	(6 233)	-
Revaluation	1 580	(47 032)
December 31	**227 336**	**212 164**

In November 2022, a warehouse used to store Bank assets was damaged by bombing and shelling by russian troops. Based on inspection by Bank employees, owners of warehouse and representatives of the appraiser, the existence of assets was confirmed, but the degree of damage is not measurable as physical access to them is limited. When safe and free access to Bank assets is offered, they would be reappraised, and possibilities of their future use would be determined.

Sale of foreclosed property by the Bank as the mortgagee is disclosed in *Other Income* item of the statement of profit and loss and other comprehensive income (Note 26).

13. Intangible assets

Changes in intangible assets for the year ended on December 31, 2022, are presented below:

	Software	*Intangible assets in the process of implementation*	*Other intangible assets*	*Total*
Historical value				
January 1, 2022	**51 082**	**38 411**	**2 290**	**91 783**
Acquisition	2 972	8 551	-	**11 523**
Disposal	(3 625)	-	-	**(3 625)**
Other changes	-	(2 972)	-	**(2 972)**
December 31, 2022	**50 429**	**43 990**	**2 290**	**96 709**
Accumulated amortization				
January 1, 2022	**31 117**		**1 645**	**32 762**
Charged during the year	5 640	-	185	**5 825**
Disposal	(3 625)	-	-	**(3 625)**
December 31, 2022	**33 132**	**-**	**1 830**	**34 962**
Amortized cost:				
January 1, 2022	**19 965**	**38 411**	**645**	**59 021**
December 31, 2022	**17 297**	**43 990**	**460**	**61 747**

Changes in intangible assets for the year ended on December 31, 2021, are presented below:

	Software	*Intangible assets in the process of implementation*	*Other intangible assets*	*Total*
Historical value				
January 1, 2021	**39 920**	**9 820**	**2 290**	**52 030**
Acquisition	11 162	39 753	-	**50 915**
Other changes	-	(11 162)	-	**(11 162)**
December 31, 2021	**51 082**	**38 411**	**2 290**	**91 783**
Accumulated amortization				
January 1, 2021	**25 497**	**-**	**1 460**	**26 957**
Charged during the year	5 620	-	185	**5 805**
December 31, 2021	**31 117**	**-**	**1 645**	**32 762**
Amortized cost				
January 1, 2021	**14 423**	**9 820**	**830**	**25 073**
December 31, 2021	**19 965**	**38 411**	**645**	**59 021**

As at December 31, 2022, the Bank has contractual obligations of UAH 1 582 thousand (2021: UAH 8 461 thousand) related to acquisition of intangible assets.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

14. Fixed assets

Changes in fixed assets for the year ended on December 31, 2022:

	Own land and buildings	*Leased property*	*Machines and equipment*	*Vehicles*	*Office equipment*	*Computers*	*Other fixed assets*	*Capital investments in progress*	*Total*
Historical / revalued value									
January 1, 2022	**220 905**	**147 721**	**23 511**	**5 019**	**8 132**	**76 156**	**43 838**	**2 620**	**527 902**
Acquisition	-	13 252	1 124	5 937	65	3 780	2 234	15 419	**41 811**
Revaluation	9 018	-	-	-	-	-	-	-	**9 018**
Other changes	(5 513)	-	-	-	-	-	-	(13 404)	**(18 917)**
Disposal	-	(12 174)	(895)	(2 226)	(241)	(169)	(3 139)	-	**(18 894)**
December 31, 2022	**224 410**	**148 799**	**23 740**	**8 680**	**7 956**	**79 767**	**42 933**	**4 635**	**540 920**
Accumulated depreciation									
January 1, 2022	**-**	**52 146**	**19 236**	**3 297**	**6 637**	**45 900**	**32 026**	**-**	**159 242**
Charged during the year	5 513	24 351	1 662	1 001	677	15 525	4 104	-	**52 833**
Disposal	-	(12 174)	(893)	(1 422)	(233)	(169)	(3 135)	-	**(18 026)**
Other changes	(5 513)	13 385	-	-	-	-	-	-	**7 872**
December 31, 2022	**-**	**77 708**	**20 005**	**2 876**	**7 081**	**61 256**	**32 995**	**-**	**201 921**
Depreciated value									
January 1, 2022	**220 905**	**95 575**	**4 275**	**1 722**	**1 495**	**30 256**	**11 812**	**2 620**	**368 660**
December 31, 2022	**224 410**	**71 091**	**3 735**	**5 804**	**875**	**18 511**	**9 938**	**4 635**	**338 999**

Buildings are disclosed at revalued value net of accumulated depreciation.

In 2022 and 2021, the Bank engaged independent appraisers to measure fair value of buildings occupied by the owner; based on the result of appraisal, Bank management took a decision to adjust value where fair value of property significantly differed from the book value.

Were buildings and land plots of the Bank posted at cost, their carrying amount would have been:

	2022	*2021*
Historical value	**190 180**	**190 180**
Accumulated depreciation	(28 645)	(24 503)
Depreciated value	**161 535**	**165 677**

As at December 31, 2022, value of fully depreciated fixed assets of *Computers* group was UAH 32 130 thousand (2021: UAH 24 381 thousand), *Machines and Equipment* group – UAH 16 849 thousand (2021: UAH 14 618 thousand), «*Office equipment* group – UAH 4 924 thousand (2021: UAH 4 655 thousand), *Vehicles* group – UAH 895 thousand (2021: UAH 2 453 thousand), *Communication and networking equipment* group – UAH 509 thousand (2021: UAH 509 thousand), *Fixtures and fittings* group – UAH 336 thousand (2021: UAH 349 thousand), *Other fixed assets* group - UAH 23 922 thousand (2021: UAH 22 493 thousand).

Income and loss from disposal of fixed assets are disclosed in Note 26.

As at December 31, 2022 and 2021, fixed assets were not pledged as collateral.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Changes in fixed assets for the year ended on December 31, 2021:

	Own land and buildings	*Leased property*	*Machines and equipment*	*Vehicles*	*Office equipment*	*Computers*	*Other fixed assets*	*Capital investments in progress*	*Total*
Historical / revalued value									
January 1, 2021	**219 220**	**160 153**	**22 515**	**4 455**	**8 593**	**70 823**	**112 523**	**1 756**	**600 038**
Acquisition	895	20 940	1 921	4 396	356	6 385	5 169	17 829	**57 891**
Transfer to assets held for sale	-	-	-	-	-	-	(16 300)	-	**(16 300)**
Revaluation	5 849	-	-	-	-	-	-	-	**5 849**
Other changes	(5 059)	-	-	-	-	-	(56 670)	(16 965)	**(78 694)**
Disposal	-	(33 372)	(925)	(3 832)	(817)	(1 052)	(884)	-	**(40 882)**
December 31, 2021	**220 905**	**147 721**	**23 511**	**5 019**	**8 132**	**76 156**	**43 838**	**2 620**	**527 902**
Accumulated depreciation									
January 1, 2021	**-**	**49 472**	**18 500**	**3 641**	**6 800**	**31 360**	**40 591**	**-**	**150 364**
Charged during the year	5 059	27 175	1 661	261	654	15 592	13 102	-	**63 504**
Impairment	-	-	-	-	-	-	35 887	-	**35 887**
Disposal	-	(33 353)	(925)	(605)	(817)	(1 052)	(884)	-	**(37 636)**
Other changes	(5 059)	8 852	-	-	-	-	(56 670)	-	**(52 877)**
December 31, 2021	**-**	**52 146**	**19 236**	**3 297**	**6 637**	**45 900**	**32 026**	**-**	**159 242**
Depreciated value									
January 1, 2021	**219 220**	**110 681**	**4 015**	**814**	**1 793**	**39 463**	**71 932**	**1 756**	**449 674**
December 31, 2021	**220 905**	**95 575**	**4 275**	**1 722**	**1 495**	**30 256**	**11 812**	**2 620**	**368 660**

15. Income tax

In accordance with Tax Code of Ukraine income tax rate in 2022 – 2021 was 18%.

Components of income tax expense, recognized in profit or loss for the year ended on December 31 are:

	2022	*2021*
Current income tax	(27)	(14)
Changes of deferred tax related relating to the origination and reversal of temporary differences	(5 969)	(11 163)
Income tax expense	**(5 996)**	**(11 177)**

Comparison of estimated and factual tax expense is presented below:

	2022	*2021*
Income before taxes	**12 612**	**577 446**
Theoretical tax charges at the applicable statutory rate	2 270	103 940
Accumulated tax loss used	(6 304)	(101 937)
Tax differences carried forward	4 941	1 888
Taxable differences under transactions with securities	3 876	-
Non-deductible expense	1 193	7 049
Minimal tax liability	20	-
Debt write-off/forgiveness that increases (decreases) taxable base	-	237
Income tax expense	**5 996**	**11 177**

Differences between rules of taxation and IFRSs create temporary differences between value of certain assets and liabilities, disclosed in financial statements, and their taxable base. Tax effect of changes in temporary differences was measured by the Bank, using the known income tax rate in force as of January 1, 2023.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

As at December 31, 2022, deferred tax assets and liabilities relate to the following:

	As at January 1, 2022	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*As at December 31, 2022*
Investments in securities at fair value through other comprehensive income	(750)	-	26 370	25 620
Fixed and intangible assets	(807)	1 346	(1 344)	(805)
Other temporary differences	1 716	(1 011)	-	705
Tax loss carry-forward	250 221	(6 304)	-	243 917
Net deferred tax asset / (liability)	**250 380**	**(5 969)**	**25 026**	**269 437**

As at December 31, 2021, deferred tax assets and liabilities relate to the following:

	As at January 1, 2021	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*As at December 31, 2021*
Investments in securities at fair value through other comprehensive income	(5 580)	-	4 830	(750)
Fixed and intangible assets	1 432	(1 963)	(276)	(807)
Other temporary differences	176	1 540	-	1 716
Tax loss carry-forward	366 062	(115 841)	-	250 221
Estimated net deferred tax asset / (liability)	**362 090**	**(116 264)**	**4 554**	**250 380**
Deferred tax asset not recognized in statement of financial position	(105 102)	105 102	-	-
Net deferred tax asset / (liability)	**256 988**	**(11 162)**	**4 554**	**250 380**

16. Non-current assets held for sale

During the reporting year, management of the Bank approved reclassification of assets due to changes in plans of their use or sale. These and other changes in assets held for sale include:

	2022	*2021*
January 1	**16 526**	**434**
Foreclosure of collateral	775	2 662
Transfer from fixed assets (Note 14)	-	16 300
Transfer from investment property (Note 11)	-	25 672
Transfer to other assets	(16 768)	-
Sale of assets	(26)	(28 424)
Increase/ (decrease of book value of assets held for sale to their fair value	(44)	(118)
December 31	**463**	**16 526**

Results of sale of non-current assets held for sale is disclosed in *Other income* item of statement of profit and loss and other comprehensive income (Note 26).

17. Due to banks

Due to banks as at December 31 was:

	2022	*2021*
Due to National Bank of Ukraine	1 140 037	3 135 520
Due to other banks	5 708	680 301
Other banks' deposits	-	92 768
Total due to banks	**1 145 745**	**3 908 589**

Due to National Bank of Ukraine represent loans of UAH 640 000 UAH repayable in 1st quarter of 2026 and UAH 500 000 thousand repayable in 2nd quarter of 2026. The Bank transferred as a security under loans cash of UAH 0 thousand (2021: UAH 401 994 thousand) (Note 8) and securities of carrying amount of UAH 1 226 570 thousand (2021: UAH 3 342 510 thousand) (Note 10).

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

18. Due to customers

Due to customers as at December 31 was:

	2022	*2021*
Current accounts		
- legal entities	11 522 398	9 785 655
- individuals	1 570 908	1 342 557
	13 093 306	**11 128 212**
Term deposits		
- legal entities	1 134 385	1 275 254
- individuals	2 082 450	2 080 830
	3 216 835	**3 356 084**
Total due to customers	**16 310 141**	**14 484 296**

As at December 31, 2022, balances at current accounts of legal entities of UAH 6 682 794 thousand, or 52,5% of total amount at current accounts of customers belong to ten largest corporate customers (2021: UAH 5 945 330 thousand, or 53.4%). As at December 31, 2022, balances at current accounts of individuals of UAH 256 325 thousand, or 1,96% of total amount at current accounts of customers belong to ten largest customers (2021: UAH 146 884 thousand, or 1,3%).

As at December 31, 2022, deposits of legal entities of UAH 702 529 thousand, or 22,87% of total deposits (2021: UAH 297 323 thousand, or 10,7%) were placed by five largest corporate customers. As at December 31, 2022, deposits of individuals of UAH 323 833 thousand, or 10,5% of total deposits, were placed by two largest customers (2021: UAH 244 865 thousand, or 7,3%).

As at December 31, 2022, funds of legal entities and individuals in an amount of UAH 35 014 thousand (2021: UAH 610 226 thousand) were placed as security under documentary transactions, UAH 110 282 thousand – as a collateral under loan transactions (2021: UAH 217 753).

Analysis of funds due to customers, maturities, interest rates and currencies is presented in Note 29.

19. Provisions

The Bank sets provisions for future expense.

	2022	*2021*
Provision for settlements with employees	40 308	25 822
Provisions under financial guarantee contracts	2 699	9 396
Provision for court proceedings	1 220	138
Total provisions	**44 227**	**35 356**

Provision for settlements with employees are measured by amount of additional payments that might arise by accumulation of labour-related liabilities.

Provisions under financial guarantee contracts. The Bank sets provisions for loan-related liabilities payable under contract in case of debtor's default.

Contractual and contingent revocable loan-related liabilities as at December 31 are presented below:

	2022	*2021*
Guarantees	298 387	1 459 819
	298 387	**1 459 819**
Cash security under guarantees	(17 853)	(504 808)
Provisions under financial guarantee contracts	(2 699)	(9 396)
Contractual and contingent liabilities	**277 835**	**945 615**

As at December 31, 2022, the Bank has a liability to make settlements under non-risk letters of credit, since these transactions have cash coverage of UAH 17 162 thousand (2021: UAH 188 186 thousand).

As at December 31, 2022, balance of credit lines, not used by the customers, was UAH 1 741 703 thousand (2021: UAH 3 170 312 thousand). Requests for the funds from these free funds is mandatorily agreed with the Bank, and the Bank has a right to refuse the loan in cases of deterioration of customer's solvency or non-compliance of the customer with necessary credit procedures, or for other reasons.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

The following changes in provision under contracts of financial guarantee occurred during the year:

	2022	*2021*
As at January 1	**9 396**	**758**
Accrual / (release) of provision	(6 778)	8 757
Utilisation of provision	-	(123)
Exchange rate differences	81	4
As at December 31	**2 699**	**9 396**

During the reporting year, a borrower compensated expenses related to establishment of provision under contract of financial guarantee.

Provision for court proceedings. The Bank is an object of court claims in the course of its usual operations. AS at December 31, 2022, the Bank is a defendant in several claims regarding collection of funds, and the Bank established a respective partial provision:

	2022	*2021*
As at January 1	**138**	**219**
Accrual / (release) of provision	1 143	(60)
Utilisation of provision	(61)	(21)
As at December 31	**1 220**	**138**

Taxation and compliance with laws

Ukrainian laws, regulating taxation and other aspects of business, continues to change. Laws and regulations are sometimes formulated vaguely; thus, the interpretations depend on position of local, oblast and central governments and other similar bodies, and the cases of contradictory interpretations are common. Management believes that the Bank complied with all laws and regulations, and all taxes, set by law, were paid.

Still, there is a risk, that transactions and correctness of interpretations, approved by controlling agencies in the past, would not be put into doubt in future.

Assets pledged as collateral and assets, restricted in use

As at December 31, 2022, funds of UAH 1 140 000 thousand (2021: UAH 3 140 000 thousand) were placed by the Bank to National Bank of Ukraine as collateral under refinancing loan cash of UAH 0 thousand (2021: UAH 545 204 thousand) (Note 8), and securities of carrying amount of UAH 1 396 898 thousand (2021: UAH 3 342 510 thousand) as collateral under interest rate swap (Note 10).

As at December 31, 2022, guarantee deposits, placed in other banks under different transactions, are disclosed in Note 8.

20. Other liabilities

Other financial liabilities and non-financial liabilities as at December 31 include

	2022	*2021*
Other financial liabilities		
Lease-related liabilities (Note 21)	111 884	104 964
Payables under pay card transactions	19 862	-
Balances at transit accounts under transactions with customers	5 532	4 509
Accrued expense	4 466	5 838
Payables under transactions with other banks	3 510	-
Other	7 228	9 719
Total other financial liabilities	**152 482**	**125 030**

	2022	*2021*
Other liabilities		
Dues to Deposit Guarantee Fund	6 016	5 847
Other taxes payable, except for income tax	5 235	4 138
Deferred income	4 667	9 663
Advances received	600	11 510
Other payables	1 294	891
Total other liabilities	**17 812**	**32 049**

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

As at December 31, 2022, the Bank received advances of UAH 600 thousand (2021: UAH 11 510 thousand) under preliminary contracts on sale of Bank assets acquired through foreclosure of collateral of carrying amount of UAH 5 876 thousand (2021: UAH 25 438 thousand).

21. Lease

Bank as a lessee

The Bank leases non-residential premises used to locate Bank's structural departments. Lease term is 2 - 8 years. Some contracts contain lease extension option.

The Bank has contracts with the term of not more than 12 months and contracts with low-value assets. The Bank applies simplification of practical nature regarding relief from recognition for short-term leases and leases of low-value assets.

As at December 31, 2022, carrying amount of recognized right-of-use assets is UAH 71 091 thousand (2021: UAH 95 575 thousand); changes in their carrying amount are presented in Note 14:

During the reporting period, the Bank generated income from sublease of right-of-use assets in an amount of UAH 284 thousand (2021: UAH 3 824 thousand).

Carrying amount of lease liabilities and its changes during the reporting period is presented below:

	2022	*2021*
As at January 1	**104 964**	**123 305**
Recognition of liability	12 803	20 140
Accrual of interest	9 498	10 166
Changes of estimates of cash flows	10 913	(13 060)
Payments made	(26 294)	(35 387)
As at December 31	**111 884**	**104 964**

Periods of payments under lease liabilities are disclosed in Note 29.

During the reporting period, expense of the Bank under short-term lease were UAH 1 820 thousand (2021: UAH 2 089 thousand), while expense under lease of low-value assets were UAH 370 thousand (2021: UAH 427 thousand).

Bank as a lessor

In the reporting period, the Bank generated income of UAH 6 226 thousand (2021: UAH 16 610), including income from variable lease payments (2021: UAH 1 417).

Minimal lease payments receivables within 1 year under contracts on operating lease as at December 31. 2022, are UAH 3 567 thousand (2021: UAH 5 939 thousand).

As at December 31, 2022, total undiscounted lease payments under financial lease and their current value are:

	Up to 1 year	*1 – 5 years*	*Total*
Total undiscounted lease payments receivable	4 735	1 199	**5 934**
Future financial income	417	295	**712**
Current value of lease payments	4 318	904	**5 222**

As at December 31, 2021, total undiscounted lease payments under financial lease and their current value are:

	Up to 1 year	*1 – 5 years*	*Total*
Total undiscounted lease payments receivable	11 029	5 532	**16 561**
Future financial income	1 848	583	**2 431**
Current value of lease payments	9 181	4 949	**14 130**

22. Equity and reserves

As at December 31, 2022, approved and registered share capital of the Bank included 3 586 561 499 ordinary shares (2021: 3 586 561 499) of UAH 1 each. All ordinary shares are paid in full, are voting, and have the right to dividends and withdrawal of capital.

On September 5, 2022, the Shareholder tool a decision to channel the retained earnings of UAH 56 627 thousand to reserve fund of the Bank.

On December 15, 2022, the Shareholder took a decision to channel 2020 retained earnings of UAH 37 269 thousand and a share of 2021 retained earnings of UAH 382 731 thousand to cover losses of previous periods.

In 2022 and 2021, the Bank did not declare payment of dividends before the date of approval of financial statements.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Nature and purpose of reserves

Revaluation surplus
Revaluation surplus is used to reflect increase of fair value of buildings occupied by the owner, as well as decrease to the extent reflecting increase of value of the same asset, included earlier into equity.

Securities revaluation surplus
This reserve reflects changes in fair value of securities at fair value through other comprehensive income.

Information on changes in other comprehensive income by categories of reserves (net of taxes) is presented below:

	luation surplus - buildings	***Revaluation surplus – debt financial instruments***	***Revaluation surplus – equity instruments***	***Total revaluation surplus***
January 1, 2021	**82 921**	**25 423**	**(164)**	**108 180**
Revaluation profit (loss)	1 260	(8 437)	-	**(7 177)**
Reclassification into profit (loss)	-	(13 569)	-	**(13 569)**
December 31, 2021	**84 181**	**3 417**	**(164)**	**87 434**
Revaluation profit (loss)	6 122	(123 756)	-	**(117 634)**
Reclassification into profit (loss)	-	3 627	-	**3 627**
December 31, 2022	**90 303**	**(116 712)**	**(164)**	**(26 573)**

23. Interest income and expense

	2022	***2021***
Interest income under financial assets at amortized cost		
Loans and advances to customers	921 497	795 435
- *Legal entities*	*541 977*	*402 608*
- *Individuals*	*355 550*	*386 321*
- *State bodies*	*22 188*	*5 153*
- *Mortgage*	*1 782*	*1 353*
Cash and cash equivalents	592 708	167 413
Investments in securities	16 796	28 083
Loans and advances to banks	2 240	86
	1 533 241	**991 017**
Interest income under financial assets at fair value through other comprehensive income		
Investments in securities	506 177	409 146
	506 177	**409 146**
Interest income under financial assets at fair value through profit or loss		
Investments in securities	103	29 163
	103	**29 163**
Total interest income	**2 039 521**	**1 429 326**
Interest expense under financial assets at amortized cost		
Due to customers	(788 692)	(405 809)
- *Legal entities*	*(662 530)*	*(276 036)*
- *Individuals*	*(126 162)*	*(129 773)*
Due to banks	(401 184)	(209 484)
Interest expense under lease liabilities	(9 498)	(10 166)
Total interest expense	**(1 199 374)**	**(625 459)**
Net interest income	**840 147**	**803 867**

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

24. Commission income and expense

Net commission income of the year:

	2022	*2021*
Commission income		
Pay card transactions	74 877	83 100
Settlement transactions with customers	65 461	69 004
Foreign currency transactions	46 070	57 917
Guarantees and letters of credit	22 972	49 973
Servicing of loans	3 482	3 167
Other	726	770
	213 588	**263 931**
Commission expense		
Pay card transactions	(52 745)	(49 587)
Settlement transactions with customers	(39 188)	(36 870)
Commission expense under guarantees and letters of credit	(2 492)	(3 958)
Other	(376)	(1 008)
	(94 801)	**(91 423)**
Net commission income	**118 787**	**172 508**

25. Other income

	2022	*2021*
Income from modification of financial instruments	23 505	18
Agent fee under financial services	13 326	62 102
Operating lease income	6 226	16 610
Compensation of utilities under lease	5 118	2 285
Income from modification of lease	1 635	1 411
Compensation of expense on debt collection	491	1 385
Non-repayable financial aid	-	780 000
Other	4 487	1 497
Other income	**54 788**	**865 308**

Income from modification of financial instruments is recognized as a result of revision of terms under loan contracts (Note 9).

26. Other gains (losses)

	2022	*2021*
Gain from disposal of investment property	8 250	8 127
Loss from disposal of investment property	(1 094)	(1 374)
Gain from sale of foreclosed collateral	1 014	1 920
Loss from sale of foreclosed collateral	-	(787)
Gain from disposal of assets held for sale	7	1 478
Loss from disposal of assets held for sale	-	(109)
Gain from disposal of fixed assets	68	401
Loss from disposal of fixed assets	(15)	(2)
Reversal of write-down of foreclosed collateral	8 392	1 911
Impairment of foreclosed collateral	(6 812)	(49 070)
Impairment losses of fixed assets	-	(35 887)
Gain (loss) from revaluation of fixed assets	1 553	4 313
Gain (loss) from settlement of court claims	(1 143)	60
Other gain (loss)	**10 220**	**(69 019)**

27. Administrative and other operating expenses

	2022	*2021*
Losses from modification of financial instruments	42 805	283
Communications	26 118	23 461
Maintenance and similar expenses	25 304	25 347
Due to Deposit Guarantee Fund	23 816	26 479
Cost of maintenance of fixed and intangible assets	13 905	22 646
Taxes and other mandatory dues, except for income tax	13 229	13 800
Professional services	12 363	23 475
Security	12 033	11 493
Debt collection	11 149	32 663
Cash collection services	4 485	4 197
Operating lease expense	4 246	4 768
Customers' attraction costs	3 911	16 060
Marketing and promotion	2 125	6 737
Business travel	1 220	2 049
Other	5 295	5 366
Administrative and other operating expenses	**202 004**	**218 824**

Losses through modification of financial instruments were recognized as a result of revision of terms of loan contracts (Note 9).

28. Basic and diluted earnings per share

Basic and diluted earnings per share include:

	2022	*2021*
Profit of the year	6 616	566 269
Annual average number of circulating ordinary shares (thousand pcs.)	3 586 561	3 586 561
Net basic earnings per share, UAH	-	0,16

In 2022 and 2021, the Bank did not have any financial instruments, which might have resulted in dilution of earnings per share where they converted into shares.

29. Management of financial risks

Risks are inherent in Bank operations. The Bank established an organizational structure of risk management system, providing for clear segregation of functions, responsibilities and powers between all subjects of risk management system and all Bank employees, including their liability in accordance with such segregation. Risk management system corresponds to size, business model, scope of operations, types, difficulty of Bank operations and provides for identification, measurement (assessment), monitoring, control and decrease of all significant risks of the Bank in order to determine the amount of capital necessary to cover all existing inherent risks (internal capital) and ensure compliance with regulatory ratios of capital adequacy and liquidity.

Risk management system is based on reasonable policy of risk-appetite assessment, introduction of risk limits, limitations and triggers within the approved range of risk appetite, as well as continuous monitoring of compliance and introduction of respective controls.

The Bank makes an integral assessment of the following significant risks: credit risk, liquidity risk, bankbook interest rate risk, market risk, operating risk, compliance risk and strategic risk. Risks are assessed based on methods aimed at determination and disclosure of probable losses, using statistical and expert models using, inter alia, probable figures based on historical experience, taking into account current position and possible changes of macroeconomic environment, using scenario approach, if required.

Risk management structure

Risk management system of the Bank is based on segregation of duties of Bank departments and three-line defence model:

1. First line – at the level of business departments of the Bank and Bank support departments, monitoring risks and being liable for them, report on current management of these risks;
2. Second line – at the level of risk director (CRO), department of risk management, head of compliance department (CCO) and compliance department;
3. Third line – at the level of head of internal control department and internal control department regarding review and assessment of efficiency of risk management system.

There are bodies of risk management system of the Bank:

4. Supervisory Board and its committees:
   - Risk management committee;
5. Management Board and its committees:
   - Individuals' business committee;
   - Corporate business committee;
   - Small corporate business committee;
   - Assets-and-Liabilities management committee (ALMC);
   - Small and micro-business committee;
   - Non-performing assets committee;
   - Committee of operational and compliance risks and information safety;
   - Strategic development and Bank transformation committee.
6. Internal audit department (third line of defence);
7. Risk director (CRO) and risk management department (second line of defence);
8. Head of compliance department (CCO) and compliance department (second line of defence);
9. Business departments and support departments (first line of defence).

Risk management functions are allocated as follows:

Supervisory Board.

Supervisory Board sets overall Risk management strategy of the Bank, providing for general risk management in the Bank with the right to establish respective committees and delegate them certain risk management functions. Supervisory Board controls the efficiency of risk management system by approval/updating Strategy and Policies of risk management, Declaration or inclination to risks, setting of key risk appetites and limits for each significant type of risk, setting of escalation procedure, delegating the right to veto at CRO and CCO level, introduction of reporting system, approval of budgets of departments of second line of defence and application of other instruments. Supervisory Board is fully responsible for development of integral, adequate and efficient system of management of risks faced by the Bank.

Management Board

The Management Board implements tasks and decisions of Supervisory Board of the Bank on risk management system, including Strategy and Policies of risk management, Culture of risk management, procedures, methods and other measures of effective risk management.

Risk director (CRO) and risk management department (second line of defence). Compliance director (CCO) and compliance department (second line of defence).

These departments are the second line of defence, providing for analytical and methodological basis for risk management, and being responsible for implementation and performance of risk management procedures, to ensure independent control processes as well as preparation of integral reports on risk management.

Committees

The following committees are responsible for implementation of risk management strategy:

ALMC is a standing committee of the Bank established to manage active and passive Bank transactions and the related risks and implement the principle of collegial approval of decisions on regulation of limits and maximal parameters of Bank products and transactions necessary for successful execution of Bank budget.

Individuals' business committee is a standing committee of the Bank established to effectively manage business with individuals (all segments of individuals) and related risks. It has a higher level of competence and can take decisions within its powers. The Committee acts as a credit committee in the meaning of Law on bans and bank activities regarding transactions with individuals.

Corporate business committee is a standing committee of the Bank established to effectively manage business with legal entities and private entrepreneurs in the segment of corporate and medium business and related risks. It has a higher level of competence and can take decisions within its powers. The Committee acts as a credit committee in the meaning of Law on bans and bank activities regarding transactions with legal entities.

Small and micro-business committee is a standing committee of the Bank established to effectively manage business with legal entities and private entrepreneurs in the segment of small and micro-business and related risks. It has a higher level of competence and can take decisions within its powers. The Committee acts as a credit committee in the meaning of Law on bans and bank activities regarding transactions with legal entities.

Committee of operational and compliance risks and information safety is a bode managing internal control system of the Bank, organization and improvement of operational processes, management of operational risk, compliance risk, implementation and functioning information safety management system (ISMS) and management of information risks within ISMS of the Bank.

Non-performing assets committee is a standing committee of the Bank established to effectively manage nonperforming assets and foreclosed collaterals. The Committee is authorized to dela with management of nonperforming or potentially nonperforming assets, including approval of credit decisions on such assets.

Strategic development and Bank transformation committee is a standing committee of the Bank established to manage projects and transformation of the Bank, setting the Bank transformation strategy by optimization of processes and digital changes, including, but not limited to, development of Bank information systems.

Business departments

Business departments are the first line of defence, being responsible at their level for monitoring of risks and pre-set limits. This level provides to collection of complete, reliable and operative information in risk assessment and reporting system.

Internal audit

Internal audit department regularly reviews risk management processes of the Bank, including review of both adequacy of procedures and compliance with the procedures. Internal audit department reports the results of reviews and offers conclusions and recommendations to the Board and Supervisory Board of the Bank.

Credit risk

Credit risk is the risk of financial loss for the Bank resulting from non-compliance of a borrower or a counterpart with contractual obligations. The Bank manages credit risk by setting threshold limit for the risk that the Bank is ready to accept for a counterpart or a group of counterparts, facing common economic risk, while monitoring compliance with pre-set risk indicators.

For contract of loan nature (liabilities under irrevocable unused credit lines, letters of credit and guarantees), the Bank faces risk similar to credit risk, reducing it by the same procedures and risk control policies.

Book value of items in statement of financial position, including derivatives, net of effect of risk reduction through general offset agreements and agreements on collaterals, reflect maximal value of credit risk very accurately.

For financial instruments, measured at fair value, the book value reflects current value of credit risk, rather than maximal, which may arise in future due to change of value.

Credit quality of financial assets

The Bank manages credit quality of financial assets using internal system of control over risk levels relevant to counterparts and individual portfolios of assets. The system provides for focused management of existing risks, making it possible to compare credit risk for different lines of business, geographical areas and products. The system is based on financial-analytical methods and processed market data as basic data to assess risk of counterparts.

Management measures impairment of loans to customers by assessment of probability of repayment and collection of advances based on analysis of individual material loans and aggregated loans with similar terms and risk characteristics. Factors to be taken into consideration for assessment of individual loans include history of repayments, current financial position of a borrower, timeliness of repayment and collateral, timeframe to pay interest, conditions of the economic branch, where a borrower operates, etc. Management assesses amounts and terms of future payments to repay principal and interest under a loan and possible income from sale of pledged collateral in accordance with principles, described in Note 4.2.1, to measure impairment of loans.

The Bank is sensitive to credit risk due to increase of debts under loans at 2 and 3 stages of impairment as a result of full-scale aggression of russian federation against independent Ukraine. As at December 31, 2022, gross carrying amount of assets at 3 stage of impairment is UAH 1 755 822 thousand (2021: UAH 2 805 690 thousand). In 2022, net carrying amount of these assets increased by UAH 118 293 reaching UAH 244 699 thousand as at December 31, 2022. Increase of net carrying amount of impaired assets is mostly the result of placing loans of borrowers, operating in the territories where hostilities are (were) carried as at the date of preparation of the financial statements, territories temporarily occupied by russian troops, and borrowers who lost stable source of income as a result of full-scale russian military, to the 3 stage of impairment. Sensitivity to credit risk due to loans at 3 stage of impairment and POCI assets is caused by value of mortgaged assets under this type of loans. The Bank is sensitive to change of fair value of these assets and ability of the Bank to provide for their foreclosure

As a result of significant changes in macroeconomic environment during full-scale war, the Bank used such instruments as credit holidays (up to 01.07.2022) and restructuring the debts of borrowers (after 01.07.2022), who faced difficulties in debt servicing were caused by russian military aggression against Ukraine. The above resulted in increase of loans at 2 stage of impairment. As at December 31, 2022, gross carrying amount of these assets is UAH 744 962 thousand (2021: 145 461 thousand). Net carrying amount of these assets as at December 31, 2022, is UAH 659 419 thousand (2021: UAH 95 952 thousand). When restructuring debts, management applied judgement regarding future estimated cash flows, keeping in mind debt load of counterparts and prospects of future repayment/servicing due to positive adaptation of borrowers' businesses and sources of their income to new business situation. In case of change of estimates of future cash flows under implemented restructuring, including quality of debt servicing, estimated net carrying amount of these assets may be reduced.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Expected credit losses for loans of 1st stage of impairment depends on index of probability of default, calculated based on current financial position of a borrower, quality of debt servicing and effect of macro factors, correlation of which with default probability index is confirmed by the models used by the Bank. Corporate loan portfolio sensitivity to credit risk and changes of macro factors and internal ratings is insignificant due to high requirements to collateral, set by credit policy of the Bank. Still, individuals' loan portfolio, measured as an aggregate, is more sensitive to environment and respective changes of default probability index, used to measure amortized cost of these assets, due to blank nature of loans (when calculating allowance for the above category of loans, the Bank updated statistical information to actualize default probability indices based on actual risk profiles of the borrowers, and adjusted macroeconomic expectations, actual as at the reporting date).

Financial assets of the Bank as per external and internal credit ratings as at December 31, 2022:

	Cash and cash equivalents (except for cash in hand)	***Loans and advances to banks***	***Loans and advances to customers***	***Investments in securities***	***Other financial assets***
Internal credit rating					
Minimal credit risk	6 261 906	-	1 184 792	308	8
Low credit risk	35 347	5 612	1 611 242	-	4 372
Moderate credit risk	-	-	653 520	-	9
High credit risk	-	-	5 899	-	403
Defaulted assets	-	-	244 699	-	-
	6 297 253	**5 612**	**3 700 152**	**308**	**4 792**
External credit rating					
Minimal credit risk	-	-	-	1 615 590	-
Low credit risk	5 211 148	104 847	166 861	364 996	22
Defaulted assets	-	-	-	99 402	-
	5 211 148	**104 847**	**166 861**	**2 079 988**	**22**
Financial assets	**11 508 401**	**110 459**	**3 867 013**	**2 080 296**	**4 814**

Grouping of financial assets by existence of internal or external rating, if any, is based on credit rating at international scale of such agencies as Standard & Poor's, Fitch Ratings and Moody's Investors Service. If a debtor has a respective international rating, it is included externally rated group.

Distribution of assets by conditional rating within the above groups is used do disclose information on credit quality of financial assets portfolio depending on indicators of their impairment and scope of formed ECL allowance. Assets with minimal credit risk include assets at 1st stage of impairment with estimates ECL allowance of zero value. Assets with low credit risk include assets at 1st stage of impairment, which were not included into category of assets with minimal credit risk. Assets with medium credit risk include assets at 2nd stage of impairment when ECL allowance reaches up to 50% of their carrying amount. All other assets at 2nd stage of impairment are included into high-risk category.

Financial assets of the Bank as per external and internal credit ratings as at December 31, 2021:

	Cash and cash equivalents (except for cash in hand)	***Loans and advances to banks***	***Loans and advances to customers***	***Investments in securities***	***Other financial assets***
Internal credit rating					
Minimal credit risk	4 845 558	545 204	1 525 034	308	13 123
Low credit risk	6 034	6 937	3 966 929	-	300 070
Moderate credit risk	-	-	88 916	-	7
High credit risk	-	-	7 036	-	24
Defaulted assets	-	-	126 354	-	-
	4 851 592	**552 141**	**5 714 269**	**308**	**313 224**
External credit rating					
Minimal credit risk	-	-	-	5 160 145	-
Low credit risk	1 149 000	621 308	-	381 434	21 772
	1 149 000	**621 308**	**-**	**5 541 579**	**21 772**
Financial assets	**6 000 592**	**1 173 449**	**5 714 269**	**5 541 887**	**334 996**

Geographical concentration of financial assets and liabilities of the Bank as at December 31, 2022:

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

	Ukraine	*OECD*	*CIS and Baltic states*	*Other countries*	*Total*
Assets					
Cash and equivalents	6 418 504	5 210 806	-	342	**11 629 652**
Due from other banks	5 612	88 678	-	16 169	**110 459**
Loans and advances to customers	3 700 152	166 861	-	-	**3 867 013**
Investment securities	2 080 296	-	-	-	**2 080 296**
Derivatives	516 561	-	-	-	**516 561**
Other financial assets	4 798	13	-	3	**4 814**
Total financial assets	**12 725 923**	**5 466 358**	**-**	**16 514**	**18 208 795**
Liabilities					
Due to banks	1 145 629	-	116	-	**1 145 745**
Due to customers	16 153 336	28 118	10 380	118 307	**16 310 141**
Other financial liabilities	152 151	329	-	2	**152 482**
Total financial liabilities	**17 451 116**	**28 447**	**10 496**	**118 309**	**17 608 368**
Net geographical concentration	**(4 725 193)**	**5 437 911**	**(10 496)**	**(101 795)**	**600 427**

Geographical concentration of financial assets and liabilities of the Bank as at December 31, 2021:

	Ukraine	*OECD*	*CIS and Baltic states*	*Other countries*	*Total*
Assets					
Cash and equivalents	4 963 077	1 147 156	1 557	288	**6 112 078**
Due from other banks	552 142	268 799	-	352 508	**1 173 449**
Loans and advances to customers	5 592 057	122 109	103	-	**5 714 269**
Investment securities	5 541 887	-	-	-	**5 541 887**
Derivatives	97 014	-	-	-	**97 014**
Other financial assets	312 252	971	21 772	1	**334 996**
Total financial assets	**17 058 429**	**1 539 035**	**23 432**	**352 797**	**18 973 693**
Liabilities					
Due to banks	3 908 530	-	59	-	**3 908 589**
Due to customers	14 139 100	162 706	7 513	174 977	**14 484 296**
Other financial liabilities	124 929	99	-	2	**125 030**
Total financial liabilities	**18 172 559**	**162 805**	**7 572**	**174 979**	**18 517 915**
Net geographical concentration	**(1 114 130)**	**1 376 230**	**15 860**	**177 818**	**455 778**

Market risk

Market is related to unfavorable FX-rate changes, interest rate changes and value of financial instruments. Market risks include default risk, bankbook interest rate risk, credit spread risk, stock exchange, currency, commodities and volatility risks.

Purpose of market risk management is management and control of the risk within the range of pre-set parameters, set by Declaration of risk inclination, the priority being maximal safekeeping of assets and capital based on decrease (prevention) of possible losses and shortage of profits under investments into financial instruments, including investments in currencies and precious metals.

The Bank uses the following instruments to assess and manage market risks:

- For default risk – assessment of credit for active banking transactions;
- For trade book interest rate risk and credit spread risk – method of modified duration;
- For volatility, stock exchange, currency and commodities risks – method of value at risk (VaR);
- Stress testing of market risks.

In 2022, the Bank did not engage in transactions on purchase/sale of non-governmental securities.

Any transaction with new instruments in trade book can be affected only when the Supervisory Board of the Bank approves respective level of risk appetite. The Bank sets the limit for maximal possible decrease of fair value of government bonds (sale portfolio and trading portfolio) at increase of profitability by 1%.

On 24.02.2022, NCSSE suspended security transactions, except for securities necessary for implementation of monetary policies and regulation of cash turnover by NBU, and servicing debt of Ministry of finances (special military state bonds). On August 4, 2022, NCSSE removed most of limitations, introduced at the onset of war, and trade in securities renewed as of August 8. Renewal of active trade resulted in regulator's review of coupon-less profitability curve of state bonds (SB) and negative revaluation of SB portfolio at fair value through other comprehensive income. The Bank has an adequate stock of highly liquid assets, diversified schedule of settlements for SB portfolio due to weighted allocation within portfolio by maturities of separate batches of financial instruments and limits for sale of partially impaired batches in order to reduce effect of revaluation of portfolio to financial performance of the Bank. As at 31.12.2022, accumulated SB impairment at fair value through other comprehensive income was UAH 142 332 thousand. Taking into account moderate liquidity risk, resulting, inter alia, from adequate stock of high-liquid assets and relatively uniform distribution of securities by maturities, the Bank has no need to sell formed SB portfolio with accumulated impairment through other comprehensive income in the nearest perspective, as it may negatively affect its financial performance.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

The Bank assesses default risk, interest rate risk of bankbook, risk of credit spread and stock exchange risk solely for the instrument included into trade book of the Bank.

When measuring market risks, the Bank uses clear, complete and documented assumptions corresponding to Business plan of the Bank, historical market statistics and internal statistics of the Bank.

Currency risk as a component of market risk

Currency risk is the risk that fluctuation of official currency exchange rates would affect Bank revenue or value of its portfolios of financial instruments.

The Bank has assets and liabilities, denominated in several currencies. Currency risk arises when actual or predicted foreign-currency assets are higher or lower than liabilities in the same currency. Bank management sets the limits and continuously monitors currency positions in accordance with NBU rules and internal methodology. The Bank separates currency position into banking and trade ones.

Policies regarding open currency positions are limited by certain maximal range, set in accordance with Ukrainian law, and NBU closely monitors them every day.

Currency position of the Bank under monetary assets and liabilities as at December 31, 2022:

	UAH	*USD*	*EUR*	*Other*	*Total*
Assets					
Cash and cash equivalents	6 372 583	3 784 127	1 460 936	12 006	**11 629 652**
Due from other banks	424	78 325	31 710	-	**110 459**
Loans and advances to customers	2 328 196	1 287 598	251 219	-	**3 867 013**
Investment in securities	1 976 690	103 606	-	-	**2 080 296**
Derivatives	516 561	-	-	-	**516 561**
Other financial assets	1 946	2 470	398	-	**4 814**
Total financial assets	**11 196 400**	**5 256 126**	**1 744 263**	**12 006**	**18 208 795**
Liabilities					
Due to other banks	1 140 196	5 495	54	-	**1 145 745**
Due to customers	9 360 762	5 264 647	1 678 051	6 681	**16 310 141**
Other financial liabilities	137 036	6 864	7 546	1 036	**152 482**
Total monetary liabilities	**10 637 994**	**5 277 006**	**1 685 651**	**7 717**	**17 608 368**
Net long /(short) currency position	**558 406**	**(20 880)**	**58 612**	**4 289**	**600 427**
Off-balance position	-	63 961	(63 986)	-	**25**
Net long /(short) position	**558 406**	**43 081**	**(5 374)**	**4 289**	**600 402**

Currency position of the Bank under monetary assets and liabilities as at December 31, 2021:

	UAH	*USD*	*EUR*	*Other*	*Total*
Assets					
Cash and cash equivalents	4 938 837	1 041 662	125 370	6 209	**6 112 078**
Due from other banks	488	329 109	843 852	-	**1 173 449**
Loans and advances to customers	4 167 132	1 300 524	246 613	-	**5 714 269**
Investment in securities	5 266 598	275 289	-	-	**5 541 887**
Derivatives	97 014	-	-	-	**97 014**
Other financial assets	309 230	17 302	2 445	6 019	**334 996**
Total financial assets	**14 779 299**	**2 963 886**	**1 218 280**	**12 228**	**18 973 693**
Liabilities					
Due to other banks	3 135 537	680 080	92 972	-	**3 908 589**
Due to customers	11 051 991	2 275 009	1 153 119	4 177	**14 484 296**
Other financial liabilities	116 179	2 037	6 038	776	**125 030**
Total monetary liabilities	**14 303 707**	**2 957 126**	**1 252 129**	**4 953**	**18 517 915**
Net long /(short) currency position	**475 592**	**6 760**	**(33 849)**	**7 275**	**455 778**
Off-balance position	**475 592**	**6 760**	**(33 849)**	**7 275**	**455 778**

As at December 31, 10% devaluation of UAH in respect of foreign currencies would increase (decrease) income before taxes and equity by the amount below. This analysis foresees that all other variables, e.g., interest rate, will be stable:

	2022	*2021*
USD	4 308	676
EUR	(537)	(3 385)

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

As at December 31, 10% revaluation of UAH in respect of the above currencies would have entirely adverse effect on income before taxes and equity with all other variables being stable.

The 2022 declaration of risk inclination of the Bank sets limits of maximal losses that cannot be surpassed with 99% probability for open bankbook and trading currency position during pre-set time horizon (10 days). Factual value of currency risk, calculated based on VaR method for total open bank currency position as at 31.12.2022 was UAH 4.8 million, staying within the pre-set limit, while the same index as at 31.12.2021 was UAH 1.2 million. These figures were calculated based on internal Bank reports, using financial statements prepared in accordance with IFRS.

Interest risk of bankbook

Interest risk of bankbook is the risk that changes of interest rate would affect future cash flows or fair value of financial instruments, thus affecting economic value of capital of the Bank and net interest income of the Bank.

Interest risk of bankbook includes the following risks:

- Gap risk due to difference in term of settlements (for instruments with fixed interest rate) or change of interest rate index (for instruments with floating interest rate) of assets, liabilities and off-balance position in the bankbook;
- Basal risk due to absence of adequately close correlation between adjustment of rates received and paid under different instruments, while all other revaluation-related characteristics are the same;
- Option risk due to Bank transactions with options (automatic option risk) or existence of embedded options in standard Bank products (behavioural option risk).

Interest risk is assessed by the influence of range of changes of market interest rates over interest margin and net interest income. When terms of interest-income bearing assets differ from terms of liabilities with interest payables, net interest income would decrease or increase depending on change of interest rates. Bank management continuously monitors market interest rates for different interest-bearing assets and interest-payable liabilities to manage interest risk.

Interest margins for assets and liabilities with different maturities may increase, if market interest rates change. In reality, the Bank changes interest rates for assets and liabilities based on current market conditions and agreements, formalized as annexes, stating new interest rates, to basic contract.

The Bank uses such instruments as GAP analysis and modified duration method to assess interest rate risk of bankbook. The Bank regularly analyses sensitivity of interest assets and liabilities to interest rate changes. The declaration of risk inclination of the Bank states permissible changes of absolute value of net interest income for the following scenarios:

1) parallel shock up;
2) parallel shock down;
3) short rates shock up);
4) short rates shock down (up to six months).

As at December 31, 2022, increase of interest rates under liabilities by 1 percent, if all other variables are constant, would have increased planned net interest income of the year by 4.0%, staying within pre-set range of risk appetite (as at December 31, 2021, the same index was 6.2%). Similar decrease of interest rates, if all other variables are constant, would have had exactly opposite effect on net interest income for the amount stated above.

IASB finalized the interest rate benchmark reform and published the final document *Interest Rate Benchmark Reform — Phase 2* in August 2020, containing changes and amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16. The changes relate to modification of financial assets, financial liabilities, lease liabilities, specific requirements to accounting of hedging and requirements to disclosure of information on modifications and hedging. These amendments did not cause changes in risk management strategy and did not affect financial statements of the Bank.

Value of balance sheet and off-balance assets and liabilities, sensitive to interest rate changes, by maturities or contractual date of interest rate revision as at December 31, 2022, is presented below:

	Up to 3 months	*3 - 12 months*	*1 – 5 years*	*Over 5 years*	*Interest-free*	*Total*
Assets						
Cash and cash equivalents	10 590 997	-	-	-	1 038 655	**11 629 652**
Due from other banks	-	-	-	-	110 459	**110 459**
Loans and advances to customers	2 065 650	1 224 825	383 392	193 146	-	**3 867 013**
Investment in securities	241 818	600 506	1 217 446	20 526	-	**2 080 296**
Derivatives	-	-	-	-	516 561	**516 561**
Other financial assets	-	-	-	-	4 814	**4 814**
Off-balance sheet assets	1 140 000	-	-	-	-	**1 140 000**
Total assets	**14 038 465**	**1 825 331**	**1 600 838**	**213 672**	**1 670 489**	**19 348 795**
Liabilities						
Due to banks	1 145 745	-	-	-	-	**1 145 745**
Due to customers	9 726 390	1 000 520	56 451	-	5 526 240	**16 310 141**
Other financial liabilities	-	-	-	-	152 482	**152 482**
Off-balance sheet liabilities	-	-	1 140 000	-	-	**1 140 000**
Total liabilities	**10 872 675**	**1 000 520**	**1 196 451**	**-**	**5 678 722**	**18 748 368**
Sensitivity to interest rate changes	**3 165 790**	**824 811**	**404 387**	**213 672**	**(4 008 233)**	**600 427**

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Derivative financial assets and liabilities, sensitive to interest rate changes, relate to two contracts on interest rate swaps with NBU for total of UAH 1 140 000 thousand (2021: UAH 1 140 000 thousand), whereas the Bank pays fixed interest rate, while for NBU the rate is floating. Taking it into account, the Bank broke down assets and liabilities by their maturities. Interest-free category in derivative financial assets and liabilities related to revaluation of fair value of the instrument as at the reporting date.

Loans and advances to customers, due to banks under refinancing loans are disclosed based on estimated term of interest rate review rather their maturities.

Risk of erratic revaluation of performing assets and liabilities of the Bank was realized in June 2022 as a result of review of NBU discount rate causing decrease of net interest income in 3 quarter of 2022. Thus, the changes of assets and liabilities, sensitive to interest rate changes resulted harmonization of existing gaps between the above accounting categories. As at 31.12.2022, the risk of further negative effect of interest rate changes on net interest income of the Bank is moderate

Value of balance sheet and off-balance assets and liabilities, sensitive to interest rate changes, by maturities or contractual date of interest rate revision as at December 31, 2021, is presented below:

	Up to 3 months	*3 - 12 months*	*1 – 5 years*	*Over 5 years*	*Interest-free*	*Total*
Assets						
Cash and cash equivalents	4 919 924	-	-	-	1 192 154	**6 112 078**
Due from other banks	-	-	-	-	1 173 449	**1 173 449**
Loans and advances to customers	1 822 444	2 020 518	1 717 365	25 271	128 671	**5 714 269**
Investment in securities	239 681	2 684 219	2 617 987	-	-	**5 541 887**
Derivatives	-	-	-	-	97 014	**97 014**
Other financial assets	-	-	-	-	334 996	**334 996**
Off-balance sheet assets	1 140 000	-	-	-	-	**1 140 000**
Total assets	**8 122 049**	**4 704 737**	**4 335 352**	**25 271**	**2 926 284**	**20 113 693**
Liabilities						
Due to banks	3 814 634	-	-	-	93 955	**3 908 589**
Due to customers	9 252 874	1 706 687	15 040	-	3 509 695	**14 484 296**
Other financial liabilities	-	-	-	-	125 030	**125 030**
Off-balance sheet liabilities	-	-	1 140 000	-	-	**1 140 000**
Total liabilities	**13 067 508**	**1 706 687**	**1 155 040**	**-**	**3 728 680**	**19 657 915**
Sensitivity to interest rate changes	**(4 945 459)**	**2 998 050**	**3 180 312**	**25 271**	**(802 396)**	**455 778**

Liquidity risk

Liquidity risk is the risk of impossibility to finance assets in proper terms at proper rates and risk of non-compliance of the Bank with its terms of payments for liabilities at their maturities. Liquidity risk arises in overall financing of operations and management of positions. It includes the risk of impossibility to finance assets in proper terms at proper rates and risk of non-compliance of the Bank with its terms of payments for liabilities at their maturities in usual or unforeseen circumstances.

The Bank follows the following major principles when managing its liquidity:

- Liquidity is managed daily and continuously;
- Bank solves antagonisms between liquidity and profitability in favour of liquidity;
- Any contract affecting liquidity is analysed keeping in mind liquidity risk.

When investing assets into different financial instruments, the Bank takes into account terms and scope of available resources, both contractual and calculated in line with historical stability. The Bank includes costs of keeping adequate level of liquidity in internal pricing of its products.

Management approach to liquidity risk is based on provision, if possible, of stable adequate level of profitability to repay the liabilities within proper terms in usual or unforeseen circumstances without any undue losses and risks for Bank reputation.

The Bank actively supports diversified and stable sources of financing, including long- and short-term loans from other banks, minimal amount of deposits of legal entities and individuals, as well as diversified portfolios of high-liquid assets to be able quickly and freely meet unforeseen needs of liquidity.

The Bank attracts short-term deposits, buys and sells foreign currency and securities, including those under SWAP and REPO contracts, to sustain short-term liquidity. The Bank attracts average- and long-term deposits, buys and sells securities, regulates its interest rate policies and controls expenses to sustain long-term liquidity. When managing liquidity, the Bank takes into consideration the need to have mandatory provisions in NBU, while the volume of these provisions depends, inter alia, over the level of attraction of customers' funds.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Undiscounted financial obligations of the Bank by maturities based on contractual undiscounted cash repayments as at December 31, 2022, are presented below:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Non-derivative financial liabilities					
Due to other banks	75 983	210 822	1 724 737	-	**2 011 542**
Due to customers	15 281 959	1 117 852	41 866	-	**16 441 677**
Lease liabilities	9 613	20 584	102 716	-	**132 913**
Other financial liabilities	40 595	3	-	-	**40 598**
Total non-derivative financial liabilities	**15 408 150**	**1 349 261**	**1 869 319**	**-**	**18 626 730**
Off-balance financial liabilities				**-**	
Financial guarantees issued	7 117	275 078	16 191	-	**298 386**
Gross loan commitments	584 047	569 020	588 635	1	**1 741 703**
Total off-balance financial liabilities	**591 164**	**844 098**	**604 826**	**1**	**2 040 089**
Total undiscounted financial liabilities	**15 999 314**	**2 193 359**	**2 474 145**	**1**	**20 666 819**

Column "Up to 3 Months" also includes deposits on demand.

The table presents aggregated analysis of contractual term of repayment for financial liabilities of the Bank as at December 31, 2022. It presents undiscounted liabilities repayable in accordance with contracts. Payments on demand are treated as those to be made immediately. Still, the Bank expects, that a lot of clients would not demand repayments immediately after maturity date in accordance with contracts, so the table does not reflect expected cash flows, calculated based deposits of the previous periods. Besides, significant balances at current accounts are treated by Bank management as conditional stable balances. Maturity analysis does not reflect stability of past current liabilities.

Taking into account the uncertainty related to possible out flow of customers' funds in the initial days of full-scale military aggression by russian federation, the Bank decided to get blank refinancing from NBU in an amount of UAH 1 000 000 thousand UAH for 1 year. The Bank repaid the above loan in advance on 31.03.2022 due to absence of indications of realization negative scenario of liquidity risk and adequate stock of highly liquid assets.

Increase of discount rate by NBU in June 2022 and review of its monetary policies increased cost of available refinancing loans with floating interest rate. As a result, the Bank actively worked in 2022 on decrease of debts under loans from NBU, thus decreasing the respective debt from UAH 3 140 000 thousand as at 31.12.2021 to UAH 1 140 000 thousand as at 31.12.2022 with moderate liquidity risk level.

As at December 31, 2022, liquidity of the Bank stays at stable and high level:

	2022	*2021*
LCRac (>100%)	224%	174%
NSFRac (>90%)	163%	143%

Undiscounted financial obligations of the Bank by maturities based on contractual undiscounted cash repayments as at December 31, 2021, are presented below:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Non-derivative financial liabilities					
Due to other banks	842 751	209 046	4 247 920	-	**5 299 717**
Due to customers	12 722 608	1 761 684	55 300	-	**14 539 592**
Lease liabilities	7 255	20 604	82 192	18 489	**128 540**
Other financial liabilities	19 952	99	14	-	**20 065**
Total non-derivative financial liabilities	**13 592 566**	**1 991 433**	**4 385 426**	**18 489**	**19 987 914**
Off-balance financial liabilities					
Financial guarantees issued	648 175	464 308	347 336	**-**	**1 459 819**
Gross loan commitments	545 732	1 464 167	939 512	220 901	**3 170 312**
Total off-balance financial liabilities	**1 193 907**	**1 928 475**	**1 286 848**	**220 901**	**4 630 131**
Total undiscounted financial liabilities	**14 786 473**	**3 919 908**	**5 672 274**	**239 390**	**24 618 045**

Column "Up to 3 Months" also includes deposits on demand.

Periods of payments under assets and liabilities and probability of changes, at reasonable price, of interest-bearing liabilities are important factors in measurement of Bank liquidity and risk arising from change of interest rates and currency exchange rates.

Analysis of financial assets and liabilities by estimated maturities as at December 31, 2022, is presented below:

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	11 629 652	-	-	-	**11 629 652**
Due from other banks	5 155	88 477	16 827	-	**110 459**
Loans and advances to customers	927 293	1 095 648	1 484 071	360 001	**3 867 013**
Investment in securities	241 818	600 506	1 217 446	20 526	**2 080 296**
Derivatives	-	-	516 561	-	**516 561**
Other financial assets	4 029	-	-	785	**4 814**
Total assets	**12 807 947**	**1 784 631**	**3 234 905**	**381 312**	**18 208 795**
Liabilities					
Due to banks	5 708	74 863	1 065 174	-	**1 145 745**
Due to customers	15 253 170	1 000 520	56 451	-	**16 310 141**
Other financial liabilities	50 123	19 450	82 909	-	**152 482**
Total liabilities	**15 309 001**	**1 094 833**	**1 204 534**	**-**	**17 608 368**
Liquidity gap of the period	(2 501 054)	689 798	2 030 371	381 312	**600 427**
Cumulative liquidity gap	**(2 501 054)**	**(1 811 256)**	**219 115**	**600 427**	

Column "Up to 3 Months" also includes deposits on demand.

The table shows loans and debts of customers, taking into account overdue loans, net of provisions. Overdue loans are included into 1 – 5 years category in accordance of Bank judgement on possible terms of collection. The table also shows financial liabilities repayable in accordance with contracts. Payments on demand are viewed as those payable immediately. Still, the Bank expects, that a lot of clients would not demand repayments immediately after maturity date in accordance with contracts, so the table does not reflect expected cash flows, calculated based deposits of the previous periods. Besides, significant balances at current accounts are treated by Bank management as conditionally stable balances (total conditionally stable balance of customers' funds as horizon of longer than three calendar months, to be paid within three months as of the date of analysis in accordance with contractual terms, is at least UAH 5 823 247 thousand (31.12.2021 – UAH 6 807 495 thousand) and are invested into securities, refinanced by NBU (government bonds) with maturity term from three months and up to five years, and deposit certificates of National Bank of Ukraine.

Derivative financial assets and liabilities include revaluation of fair value of interest-swap instrument as at respective reporting date. Off-balance assets and liabilities, related to this financial instrument, are not disclosed due to their non-monetary nature.

Keeping in mind the Bank policy of regular repayment of NBU refinancing loans, maturity of the debt under this financial instrument corresponds to maturities of securities used as collateral under the loans.

Analysis of financial assets and liabilities by estimated maturities as at December 31, 2021, is presented below:

	Up to 3 months	*3 months – 1 year*	*1 – 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents	6 112 078	-	-	-	**6 112 078**
Due from other banks	410 995	204 396	558 058	-	**1 173 449**
Loans and advances to customers	1 822 444	2 020 518	1 717 365	153 942	**5 714 269**
Investment in securities	239 682	1 272 020	4 030 185	-	**5 541 887**
Derivatives	-	-	97 014	-	**97 014**
Other financial assets	29 536	286 458	-	19 002	**334 996**
Total assets	**8 614 735**	**3 783 392**	**6 402 622**	**172 944**	**18 973 693**
Liabilities					
Due to banks	773 069	-	3 135 520	-	**3 908 589**
Due to customers	12 713 902	1 716 294	54 100	-	**14 484 296**
Other financial liabilities	27 120	19 370	65 745	12 795	**125 030**
Total liabilities	**13 514 091**	**1 735 664**	**3 255 365**	**12 795**	**18 517 915**
Liquidity gap of the period	(4 899 356)	2 047 728	3 147 257	160 149	**455 778**
Cumulative liquidity gap	**(4 899 356)**	**(2 851 628)**	**295 629**	**455 778**	

Column "Up to 3 Months" also includes deposits on demand.

In accordance with Ukrainian law and terms of loan agreements, the Bank has a right to demand repayment of loan ahead of schedule in case of deterioration of financial position of a borrower, regular non-compliance with the obligations by a customer and occurrence of some other factors.

Concentration risk

Risk concentration occurs when several counterparts are engaged in similar business or operate in the same geographical area, or they have similar economic characteristics, and the changes in economic, political or other conditions exert similar effect on the ability of such counterparts to meet their contractual obligations. Risk concentration reflect comparative sensibility of Bank operations to circumstances, affecting certain economy branches or geographical area.

Policies and procedures of the Bank include special principles focused on diversification of bank portfolio to prevent excessive risk concentration. Management of set concentration risks starts at the level of Risk-appetite declaration, Policies of significant risks management, setting limits of concentration risks be areas, products, counterparts, etc.

Operating risk

Operating risk is the risk of occurrence of losses or additional expense, or receipt of lees than planned revenue due to deficiencies or mistakes in internal processes of the Bank, intentional or unintentional acts of Bank employees or other persons, malfunctions of Bank IT systems, or influence of external factors. Operating risk includes legal risk and excludes reputational risk and strategical risk.

Operating risk is inherent for all products, types of business, procedures and systems. Operating risk management is an integral function for all levels of management. Approach to management and monitoring of operating risk is reconciled with management and monitoring of other risks of the Bank, in particular, market and credit risks.

Operating risk management is based on the model of three lines of defence:
1. First line is business departments and support departments of the Bank. They are owners of all operating risks, arising within their areas of responsibilities. These departments are responsible for detection and assessment of operating risks, implementation of necessary measures and reporting on the risks. The Bank appoints persons within departments, responsible for internal control of operating risk at the first line of defence.
2. Second line is RMD, responsible for the following functions: design, implementation and continuing development of operating risk management system; assessment of scope of operating risk of the Bank, including use of information presented by Bank employees, responsible for internal control of operating risks in the first-line departments.
3. Third line is the Department of internal audit, measuring efficiency of operating risk management system of first and second lines of defence, including assessment of efficiency of internal control system.

Operating control management is performed at all stages of the bank processes.

The Bank uses the following methods of response:

- Transfer of risk – entering into insurance contracts when the Bank can compensate the losses if risks, which are the insured, occur;
- Minimization (reduction) of risk – implementation of necessary measures aimed at decrease of the level or risk identified down to acceptable level;
- Evasion of risk – refusal to perform transactions/bank procedures unacceptable risk level, even of the Bank implements additional control procedures.

In spite of actual losses suffered by the Bank in 2022 because of realization of operating risk even, the losses are still within the range of risk appetite established by Declaration of risk susceptibility, although Bank operations were significantly affected by full-scale military invasion of russian troops. The Bank increased scope of operating expenses (including extra use of labour resources) to provide for uninterrupted operation under increased risk levels, resulting from hostilities in immediate vicinity to Bank network objects and systematic massed rocket attacks as of October 2022. The Bank reviewed a set of different scenarios of further developments, forming and approving respective Plans of actions to ensure uninterrupted functioning of the Bank.

Compliance risk

Compliance risk is the probability of losses and/or penalties, additional losses or deficiency of planned income or loss of reputation by non-compliance of the Bank with laws and regulations, market standards, rules of fair competition, rules of corporate ethics, existence of conflict of interests, as well as with internal documents of the Bank.

The Bank strives to maximally avoid compliance risks by high-level culture of compliance risks management, continuing training of personnel, strict compliance with Ukrainian laws, regulations of National Bank of Ukraine and internal documents of the Bank, assessment of external and internal factors, which may lead to compliance risks, and timely responses to them.

To control level of compliance risk, the Bank introduced efficient system of:

- Detection of compliance risks and incidents, and timely responses to them;
- Detection of potential and existing conflicts of interests, and their timely prevention / elimination;
- Participation of compliance department in solution of problem issues within its competence;
- Analysis of new products and significant changes in Bank operations (before their introduction);
- Analysis of decisions of collective bodies of the Bank;
- Analysis of reports of Bank departments, including audit reports;
- Escalation of detected risks and/or violations and organization of process of response to them.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

30. Related party transactions

The Bank issues loans to customers, attracts deposits and engages in other transactions with related parties in the usual course of the business. The Parties are considered to be related, of one of them has a possibility to control another one or significantly influence its financial and operating decisions. Terms of related parties' transactions are set at the moment of execution of transaction.

Related parties include the Shareholder of the Bank, members of Supervisory Board, members of the Board and their close families, companies where the Shareholder, key management or their close families exert control. Key management is composed of authorized persons, who are responsible for planning, management and control of Bank activities directly or indirectly, including members of the Board and Supervisory Board. Business entities are not considered to be related parties simply for the reason of having common director or other person of key management, or a person of key managements having significant influence on other business entity.

Bank management believes that terms of related parties' transactions did not differ from terms offered for independent parties.

As states in Note 1, 100 % of share capital of the Bank are owned by O.V. Yaroslavsky as of August 4, 2020.

Related parties' transactions and balances with related parties as at December 31, 2022:

	Shareholder of the Bank	*Key management personnel*	*Other related parties*	*Total*
Loans and advances to customers (contractual interest rate: UAH – 15,0% – 18,5%; USD – 6,0%)	-	6	158 241	**158 247**
Including allowance for ECL	-	-	(109 222)	**(109 222)**
Other financial assets	-	-	72	**72**
Other assets	-	-	238	**238**
Due to customers (contractual interest rate: UAH – 0 - 19,0%; USD – 0.5%; EUR – 0,1%)	6 032	52 641	1 961 016	**2 019 689**
Provisions for liabilities	-	10 401	101	**10 502**
Other financial liabilities	-	-	19	**19**
Other liabilities	-	1	3	**4**

Related parties' transactions and balances with related parties as at December 31, 2021:

	Shareholder of the Bank	*Key management personnel*	*Other related parties*	*Total*
Loans and advances to customers (contractual interest rate: UAH – 11 - 19%; USD – 6,0%)	-	10	281 002	**281 012**
Including allowance for expected credit losses	-	-	(60 124)	**(60 124)**
Other financial assets	-	-	94	**94**
Other assets	-	-	215	**215**
Due to customers (contractual interest rate: UAH – 0 - 6,5%; USD – 1%; EUR – 0,1%)	-	14 280	1 527 193	**1 541 473**
Provisions for liabilities	-	3 431	24	**3 455**
Other financial liabilities	-	-	351	**351**
Other liabilities	-	-	537	**537**

Other rights and commitments under related parties' transactions as at December 31, 2022:

	Shareholder of the Bank	*Key management personnel*	*Other related parties*	*Total*
Guarantees issued	-	-	15 000	**15 000**
Guarantees received	-	-	315 000	**315 000**
Potential loan commitments (revocable)	-	83	31	**114**

Under potential commitments (revocable credit lines), the Bank has a right to reject to provide a loan, so, there is no credit risk.

Other rights and commitments under related parties' transactions as at December 31, 2021:

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

	Shareholder of the Bank	Key management personnel	Other related parties	Total
Guarantees issued	-	-	134 482	**134 482**
Guarantees received	-	-	822 960	**822 960**
Potential loan commitments (revocable)	-	841	127 781	**128 622**

Total loans issued to repaid by related parties during the period, ended on December 31, 2022:

	Shareholder of the Bank	Key management personnel	Other related parties	Total
Loans granted to related parties	-	10 232	-	**10 232**
Loans repaid by related parties	-	(10 234)	(94 215)	**(104 449)**

Total loans issued to repaid by related parties during the period, ended on December 31, 2021:

	Shareholder of the Bank	Key management personnel	Other related parties	Total
Loans granted to related parties	-	2 242	279 338	**281 580**
Loans repaid by related parties	-	(2 262)	(124 422)	**(126 684)**

Related parties' transactions of the Bank for the period ended on December 31, 2022:

	Shareholder of the Bank	Key management personnel	Other related parties	Total
Interest income	-	3	37 128	**37 131**
Interest expense	-	(4 164)	(97 822)	**(101 986)**
Commission	11	694	2 317	**3 022**
Foreign currency transactions	-	14	2 811	**2 825**
Reversal of/ (allocation to) allowance for ECL for loans to customers	-	-	(49 097)	**(49 097)**
Other income	-	-	1 182	**1 182**
Other expense	-	(94 147)	(2 867)	**(97 014)**

Related parties' transactions of the Bank for the period ended on December 31, 2021:

	Shareholder of the Bank	Key management personnel	Other related parties	Total
Interest income	-	10	27 611	**27 621**
Interest expense	-	(34)	(58 338)	**(58 372)**
Commission	-	142	4 298	**4 440**
Foreign currency transactions	-	-	961	**961**
Reversal of/ (allocation to) allowance for ECL for loans to customers	-	1	(43 120)	**(43 119)**
Other income	-	-	780 793	**780 793**
Other expense	-	(62 239)	(2 337)	**(64 576)**

Compensation of key management personnel for the year ended on December 31, 2022, is represented by short-term payments of UAH 85 163 thousand (2021: UAH 49 945 thousand).

Remuneration for the members of the Supervisory Board for the year ended on December 31, 2022, was UAH 5 618 thousand (2021: UAH 9 116 thousand).

31. Information on segments

The Bank discerns three operating segments for financial reporting purposes:

Corporate services. Issuance of loans, attraction of deposits. Opening of current accounts for legal entities and institutions, provision of guarantees and collateral acceptances, support in foreign-trade activities.

Services to individuals. Servicing of deposits of individuals, issuance of consumer credits, overdrafts, credit cards and cash transfers.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

Investment-and-banking activities. Trading in securities and foreign currencies, derivatives, attraction and placement of funds on inter-bank market, investments in other financial instruments.

In order to stimulate business segments to improve dynamics of assets and liabilities to reduce risks of liquidity and optimize profit of segments and the Bank in general, the Bank evaluates results of business segments based on internal cost of resources, used in conditional purchase/ sale of free/ excess resources from business segments / by business segments.

Information on income and expense, profit and loss, assets and liabilities of operating segments of the Bank for the year ended on December 31, 2022:

	Legal entities	*Individuals*	*Investment-banking activities*	*Unallocated amounts*	*Total*
Interest income	564 165	357 332	1 118 024	-	**2 039 521**
Interest expense	(662 529)	(132 591)	(401 184)	(3 070)	**(1 199 374)**
Transfer	604 268	141 600	(663 221)	(82 647)	**-**
Net interest income	**505 904**	**366 341**	**53 619**	**(85 717)**	**840 147**
Net commission income	105 142	78 574	(64 929)	-	**118 787**
Other income and expense	(162 571)	(255 822)	589 956	(388 066)	**(216 503)**
Allocated to provisions	(342 359)	(278 152)	(85 537)	(23 771)	**(729 819)**
Segment performance	**106 116**	**(89 059)**	**493 109**	**(497 554)**	**12 612**
Income tax expense	-	-	-	(5 996)	**(5 996)**
Income/(loss) of the year	**106 116**	**(89 059)**	**493 109**	**(503 550)**	**6 616**
Segment assets	3 375 478	493 319	14 340 495	1 146 582	**19 355 874**
Segment liabilities	12 664 443	3 675 686	1 149 642	180 656	**17 670 427**

Unallocated amounts are the result of revaluation of foreign currency items of statement of financial position and other income, not related to principal operating activities of the Bank. Other retained amounts represent overall bank administrative expenses and other losses through impairment of assets.

Management controls operating performance of each segment separately for the purpose of allocation of resources and assessment of performance. Performance of segments is assessed in a way, differing from financial statements. Income tax is calculated for the Bank in general without allocation to segments.

Information on income and expenses, profit and loss, assets and liabilities of operating segments of the Bank for the year ended on December 31, 2021:

	Legal entities	*Individuals*	*Investment-banking activities*	*Unallocated amounts*	*Total*
Interest income	407 761	387 674	633 891	-	**1 429 326**
Interest expense	(276 036)	(129 773)	(209 484)	(10 166)	**(625 459)**
Transfer	142 696	82 392	(185 250)	(39 838)	**-**
Net interest income	**274 421**	**340 293**	**239 157**	**(50 004)**	**803 867**
Net commission income	154 432	96 110	(78 034)	-	**172 508**
Other income and expense	(62 105)	(217 171)	183 363	368 532	**272 619**
Allocated to provisions	(444 730)	(194 738)	(14 357)	(17 723)	**(671 548)**
Segment performance	**(77 982)**	**24 494**	**330 129**	**300 805**	**577 446**
Income tax expense	-	-	-	(11 177)	**(11 177)**
Income/(loss) of the year	**(77 982)**	**24 494**	**330 129**	**289 628**	**566 269**
Segment assets	4 965 480	769 575	13 238 776	1 404 327	**20 378 158**
Segment liabilities	11 080 781	3 427 093	3 908 711	168 735	**18 585 320**

32. Fair value measurement

The Bank uses the following hierarchical structure of methods to measure fair value of financial instruments and disclose this information:

- Level 1: quoting (unadjusted) on active markets for similar assets or liabilities, available as at the date of measurement.
- Level 2: models where all input data, having material effect on disclosed fair value in financial statements, are directly or indirectly based on observable information.
- Level 3: models where input data, having material effect on disclosed fair value in financial statements, are not based on observable information.

As at December 31, 2022 and 2021, there were no transfers between fair value levels 1 and 2.

(UAH'000 if not stated otherwise) - Translation from Ukrainian original

For the purpose of disclosure of information on fair value, the Bank segregated classes of assets and liabilities based their nature, characteristics and risks for assets or liabilities, as well as hierarchy level of fair values:

		Fair value measurement using				
December 31, 2022	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying amount***
Assets measured at fair value						
Derivative financial assets	31.12.2022	-	516 561	-	**516 561**	**516 561**
Investments in securities	31.12.2022	-	1 994 671	308	**1 994 979**	**1 994 979**
Investment property	01.11.2022	-	-	236 800	**236 800**	**236 800**
Fixed assets						
Land and structures	01.11.2022	-	-	224 410	**224 410**	**224 410**
Assets not measured at fair value but for which fair value is disclosed						
Cash and cash equivalents	31.12.2022	-	-	11 629 652	**11 629 652**	**11 629 652**
Due from banks	31.12.2022	-	-	110 452	**110 452**	**110 452**
Investments in securities	31.12.2022	-	56 575	-	**56 575**	**85 317**
Loans and advances to customers	31.12.2022	-	-	3 939 056	**3 939 056**	**3 867 013**
Other financial assets	31.12.2022	-	-	4 814	**4 814**	**4 814**

		Fair value measurement using				
December 31, 2022	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying amount***
Liabilities not measured at fair value but for which fair value is disclosed						
Due to banks	31.12.2022	-	-	1 145 745	**1 145 745**	**1 145 745**
Due to customers	31.12.2022	-	-	16 356 050	**16 356 050**	**16 310 141**
Other financial liabilities	31.12.2022	-	-	152 482	**152 482**	**152 482**

Reconciliation of assets, measured at fair value, recognized as at the commencement and the end of reporting period, are presented in Notes 10, 11, 14.

The following methods and assumptions were used to measure fair value:

Management determined that fair value of cash, short-term financial assets and liabilities, and other assets and liabilities is close to their book value, since these instruments have a short payback period.

Fixed assets (buildings) and investment property. The Bank engages independent appraisers to measure fair value of buildings and investment property, based on method of comparison of setting prices of the objects of similar nature, location and state.

Derivative financial instruments. Currency contracts (spots, forwards, swaps) are measured by observable market rates (Level 1) or based on calculated forward courses (Level 2).

Investment securities. Investment securities are represented by debt securities with fair value, observable on active market, and equity instruments of value determinable by any method of measurement, represented by non-marketable shares, etc... Value of these assets in measured based on models, which, in some cases, are based solely on observable market data and, in other cases, on non-observable data. Non-observable data include assumptions regarding future financial performance of investment objects, nature of risks, and economic assumptions regarding industry and geographic location, where the investment object operates.

Debt securities of state and local government are highly liquid assets circulating at active markets (level 1). During the period from 24.02.2022 to 04.08.2022, trade of securities, except for those necessary to implement monetary policies and regulate cash turnover by NBU and servicing of debt by Ministry of Finances, was suspended by decision of National Commission on securities and stock exchange. Activity of the market after removal of limitations is not recovered in full until now being significantly lower than in pre-war period. Only certain part of bonds issued by Ministry of Finances were conditionally actively traded (trading of different scope was sporadic with significant fluctuation of profitability), while other part was not traded at all. Under this situation, use of input data of 1st level, namely, quoting at active market, that the Bank can access to the date of measurement, had a risk of non-referencing to events that may show that active market prices do not represent fair value as at the date of measurement requiring adjustment of fair value by the Bank to evade this risk. So, in order to measure fair value, the Bank used methodology in accordance with the Rules of fair value measurement of residents' securities, owned by NBU or accepted by NBU as collateral under liabilities, based on development of curves of coupon-less profitability for certain groups of SB (level 2).

Loans and advances to customers. The Bank measures loans and debts of customers, receivables based on such parameters, as interest rates, risk factors and individual solvency of a debtor. Allowances are set based on estimated impairment of these assets. Fair value of loans and due from customers is calculated by discounting cash flows, using market rates for UAH loans of 13,7 - 36,0% range (2021: 5,2 – 9,9%) and 5,2 – 5,4% 2,5 – 6,0%) for foreign currency loans.

Due to customers. Fair value of attracted funds is measured using model of discounting of cash flows with the market rate of 11,2 – 14,8% (2021: 8,82%) for UAH term deposits and 0,5 - 1,8% (2021: 0,3 – 1,2%) for foreign-currency term deposits. Inherent credit risk of non-compliance with liabilities as at December 31, 2022, is assessed as insignificant.

Fair value of assets and liabilities of the Bank as at December 31, 2021:

		Fair value measurement using				
December 31, 2021	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying amount***
Assets measured at fair value						
Derivative financial assets	31.12.2021	-	97 014	-	**97 014**	**97 014**
Investments in securities	31.12.2021	-	5 415 106	308	**5 415 414**	**5 415 414**
Investment property	01.11.2021	-	-	484 900	**484 900**	**484 900**
Fixed assets						
Land and structures	01.11.2021	-	-	220 905	**220 905**	**220 905**
Assets not measured at fair value but for which fair value is disclosed						
Cash and cash equivalents	31.12.2021	-	-	6 112 078	**6 112 078**	**6 112 078**
Due from banks	31.12.2021	-	-	1 173 449	**1 173 449**	**1 173 449**
Investments in securities	31.12.2021	-	129 755	-	**129 755**	**126 473**
Loans and advances to customers	31.12.2021	-	-	6 088 014	**6 088 014**	**5 714 269**
Other financial assets	31.12.2021	-	-	334 996	**334 996**	**334 996**

		Fair value measurement using				
December 31, 2021	***Date of measurement***	***Level 1***	***Level 2***	***Level 3***	***Total***	***Carrying amount***
Liabilities not measured at fair value but for which fair value is disclosed						
Due to banks	31.12.2021	-	-	3 908 589	**3 908 589**	**3 908 589**
Due to customers	31.12.2021	-	-	14 515 950	**14 515 950**	**14 484 296**
Other financial liabilities	31.12.2021	-	-	125 030	**125 030**	**125 030**

Description of measurement methods and input data used to measure fair value of assets as at December 31, 2022, is presented below:

	Carrying amount	*Measurement method*	*Parameter*	*Parameter range*
Investment property	**236 800**			
- *Buildings and facilities*	192 985	comparative	m^2	UAH 11,37 thousand – UAH 100,37 thousand
- *Land plots*	43 726	comparative	100 m^2	UAH 109,93 thousand – UAH 132,74 thousand
- *Land plots*	89	profitable	m^2	UAH 1,75 thousand
Fixed property	**224 410**			
- *Buildings and facilities*	220 691	comparative	m^2	UAH 17,84 thousand – UAH 133,07 thousand
- *Land plots*	3 719	comparative	100 m^2	UAH 614,4 thousand – UAH 674,25 thousand

Description of measurement methods and input data used to measure fair value of assets as at December 31, 2021, is presented below:

	Carrying amount	*Measurement method*	*Parameter*	*Parameter range*
Investment property	**484 900**			
- *Buildings and facilities*	441 222	comparative	m^2	UAH 1,3 thousand – UAH 104,1 thousand
- *Land plots*	43 678	comparative	100 m^2	UAH 1,0 thousand – UAH 144,0 thousand
Fixed property	**220 905**			
- *Buildings and facilities*	217 045	comparative	m^2	UAH 2,4 thousand – UAH 130,7 thousand
- *Land plots*	3 860	comparative	100 m^2	UAH 431,2 thousand – UAH 1 036,0 thousand

33. Capital management

Regulatory capital

The Bank actively controls the capital adequacy level to prevent the inherent risks, comply with external requirements to equity and support high credit rating and capital adequacy standards, necessary to continue operations and maximize welfare of Bank's shareholders. Capital adequacy is controlled, inter alia, through implementation of methods, principles and ratios, set by Basel accord (approved in July 1988 with November 2005 changes and amendments, taking into account, inter alia, inclusion of market risk), and standards, introduced by NBU for banking oversight purposes.

The Bank control structure of its capital and adjusts in accordance with changes in economic situation and risk characteristics for Bank activities. There were no changes in purposes, policies and procedures of capital management compared to previous years.

NBU capital adequacy ratio

NBU sets requirements to the level of capital of the banks and controls the compliance. In accordance with current capital adequacy requirements of NBU, the banks must keep the risk weighed capital-to-assets ratio (capital adequacy ratio in accordance with Ukrainian legal requirements) above certain minimal level. If a bank does not maintain or does not adequately increase its equity in line with increase of its assets, weighed for risk, the bank may violate set ratio of capital adequacy, resulting in application of penalties by NBU with subsequent negative effect on financial performance and financial position.

As a result of full-scale military aggression of russian federation against Ukraine on February 24, 2022, a martial law was declared in the country. In order to minimize negative effects of this aggression and preserve stability of Ukrainian banking system, the NBU Board approved Decree of 25.02.2022 (with changes and amendments, introduced by NBU Board approved Decree №40 of 07.03.2022), whereas commercial banks of Ukraine shall not be penalized during martial law for violation capital ratios and other mandatory economic ratios and limits of open currency position, if these violations occurred as of February 24, 2022, as a result of negative impact of russian military aggression against Ukraine.

As at December 31, 2022, the Bank complied with NBU requirements and recommendation as to capital ratios, namely, regulatory capital index (H1) is UAH 1 476 million (December 31, 2021: UAH 1 508 million), regulatory capital adequacy index (H2) was 23,6% (December 31, 2021: 17,2%) (with requirement of not less than 10%), core capital adequacy ratio (H3) – 18,5% (December 31, 2021: 8,6%) with requirement of not less than 7%).

National Bank of Ukraine, in order to support financial stability of Ukrainian banking system, taking into account unfavorable changes in macroeconomic environment, each year performs asset quality review (AQR) as of 2018 and stress tests for the largest banks (as per decree of the NBU Board №40 of 07.03.2022 annual measurement of banks and banking system resilience was not performed in 2022).

In accordance with Decree of NBU Board №141 *On Approval of Regulation on Measurement of Resilience of Banks and Banking System of Ukraine* of December 22, 2017 (hereinafter – Regulation 141), resilience of the largest banks of Ukraine is measured in three steps with participation of an independent auditor. At first stage, independent auditor reviews quality of assets of a bank and adequacy of provisions under loan transactions. At second stage, NBU extrapolates the results achieved and calculates capital adequacy index. The last stage is stress testing of a bank for two macroeconomic scenarios – basic and unfavorable. Stress testing includes assessment of effect of negative factors on adequacy of bank capital to cover the risks.

In 2021, in accordance with TOR for assessment of resilience of banks and banking system of Ukraine, approved by decision of the Board of National Bank of Ukraine №39-рш of 08.02.2021, the Bank passed the resilience test in three stages. Necessary level of regulatory capital adequacy index (H2) is 18,2%, while necessary level of core capital adequacy ratio (H3) is 17,3%. As a result of steps taken and actual events, occurring in the operations of the Bank after January 1, 2021, the Bank witnessed decrease in need of capital down to UAH 270 mln. The Bank did not require attraction of additional capital to reach the above ratios; it was rather necessary to implement certain measures to reduce key business risks, namely, decrease of possible adverse impact of nonspecialized assets to core capital. Supervisory Board of the Bank (minutes №29 of 21.10.2021) approved Program of capitalization/restructuring of JSC "BANK CREDIT DNEPR» for the period up to 30.06.2022 (Capitalization program), reviewed and approved by decision of NBU Board №555-рш/БТ of 12.11.2021. In December 2021, the ere were sales of land plots in accordance with the plan, generating sales profit for the Bank of UAH 2,2 million. In addition to sale of land plots, in September – December of 2021 the Bank sold nonspecialized assets, decreasing core capital, for total of UAH 26,1 million generating sales profit of UAH 3,4 million. Besides, in January – June 2022 the Bank sold nonspecialized assets under contracts signed before commencement of russian military aggression for total of UAH 19,5 million. Due to above, as at the date of finalization of Program of capitalization (as at 01.07.2022) the Bank executed all Program planned measures and necessary values regulatory capital adequacy index (H2) and core capital adequacy ratio (H3), namely, H2=18,9%, H3=9,5%, while reducing need in capital, namely, regulatory capital adequacy index (H2) down to 10% and core capital adequacy ratio (H3) down to 7%.

Due to channelling of retained earnings (UAH 56,6 million) of previous years to increase reserve fund of the Bank and coverage of losses of previous years (UAH 420 million) by the Shareholder, as at 31.12.2022 structure of regulatory capital of the Bank improved significantly: share of core capital in regulatory capital reached 78% (31.12.2021 - 50%), thus increasing strength regarding capital requirements.

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As at December 31, capital adequacy ratio, calculated in line with NBU requirements was:

	2022	***2021***
Tier 1 capital		
Share capital	3 586 561	3 586 561
Accumulated deficit	(2 447 177)	(2 849 840)
Share premium	17 469	17 469
Total tier 1 capital	**1 156 853**	**754 190**
Tier 2 capital		
Revaluation surplus	81 180	80 919
Current year profit	111 864	686 853
Retained earnings of previous years	126 911	27 504
Total tier 2 capital	**319 955**	**754 190**
Deductions from capital	(308)	(308)
Total regulatory capital	**1 476 500**	**1 508 073**
Total risk-weighted assets	**5 314 490**	**7 881 376**
Open currency position	69 514	34 205
Minimal operating risk	86 844	86 844
Tier 1 capital adequacy ratio	**18.50%**	**8.59%**
Regulatory capital adequacy ratio	**23.61%**	**17.17%**

34. Subsequent events

In January – April 2023, the Bank repaid in advance refinancing loan of UAH 640 000 thousand with initial maturity as 1st quarter of 2026 and of UAH 500 000 thousand with initial maturity as 2nd quarter of 2026.

In January – February 2023 the Bank acquired a title to foreclosed property used as a collateral of carrying amount of UAH 11 781 thousand.

During the period between the reporting date and the date of signing of financial statements the Bank sold property acquired as foreclosed property used as a collateral of total carrying amount of UAH 4 803 thousand.

In order to provide for further decrease of inflation and preserve exchange rate stability, the NBU Board decided to continue to keep discount rate at the level of 25% (as of 17.03.2023) and implement additional measures to increase competitions of the banks for term deposits of individuals through correction of operating design of monetary policies.

On March 31, the Board of executive directors of International Monetary Fund approved 4-year *Mechanism of Extended Financing* program of USD 15,6 billion for Ukraine (SDR – 11,6 billion). Decision of the IMF Board includes immediate first tranche of USD 2.7 billion to Ukraine (SDR - 2 billion). Subsequent tranches would be transferred based on quarterly reviews of the Program. In general, Ukraine can get three tranches from IMF for total of USD 4,5 billion (SDR - 3,3 billion) in current year. Key focus of the program is support of fiscal, price and financial stability, as well as gradual economic rehabilitation of Ukraine during post-war reconstruction and admission to EU.

On April 11, 2023, long-term credit rating of JSC "BANK CREDIT DNEPR" under national scale was increased from uaAA+ to uaAAA.

Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

April 12, 2023

JSC «BANK CREDIT DNEPR»
Management report

for the year ended December 31, 2022

Translation from Ukrainian original

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1. Background information

Joint Stock Company "BANK CREDIT DNEPR" (hereinafter – the Bank) was established on July 7, 1993, by decision of General meeting of shareholders of the Bank in accordance with Ukrainian law.

On July 16, 2009, the Bank changed the name and legal from closed joint stock company into public joint stock company. As a result of changes in Ukrainian law, in April 2018 BANK CREDIT DNEPR Public Joint Stock Company was transformed into Joint Stock Company "BANK CREDIT DNEPR".

On December 12, 2019, the new version of the charter of the Bank was registered following increase of the authorized capital of the Bank. On January 23, 2020, the Bank received a certificate of issuance of shares for total amount of UAH 3,58 bn, so the registered and paid-in stated capital of the Bank is UAH 3,58 bn.

Legal address of the Bank and its head office location is 32 Zhylanska str., Shevchenkivskiy district, Kyiv, Ukraine 01033. Country of residence is Ukraine. As at December 31, 2022, the Bank has 28 offices all over Ukraine.

As at December 31, 2022, 100% of the Bank's shares were owned by O. Yaroslavsky, owner and president of DCH Group.

As at December 31, 2022, O. Yaroslavsky (the Shareholder) is the ultimate beneficiary of the Bank.

The Bank is a member of Deposit Guarantee Fund as of September 2, 1999 (registration certificate № 082 of November 1, 2018), in accordance with the Law of Ukraine № 4452-VI *On Individuals Deposits Guarantee Fund*.

Major purpose of the business of the Bank is generation of profit in the interests of its owner through provision of full range of banking services.

The Bank operates based on general license №70, renewed by National Bank of Ukraine (hereinafter – NBU) of October 22, 2018, and registration of Bank data in the State register of the banks (registration number 180 in the State register of the banks), giving the Bank the right to engage in banking transactions. Besides, the Bank has licenses for transactions with securities and depository activity, issued by National Securities and Stock Market Commission, extended for unlimited term as of October 17, 2012. In accordance with licenses and permits received, the Bank performs the following:

- Acceptance of deposit from legal entities and individuals;
- Opening and management of current accounts of customers and correspondent banks, including transfer of funds from these accounts, using payment instruments, and receipt of funds on these accounts;
- Placement of borrowed funds in its name, under its terms and at its risk;
- Issuance of guarantees and security with execution in cash in the name of third parties;
- Acquisition of right of claim for execution of obligations in cash under goods supplied or services provided, accepting the risk of execution of these obligations and acceptance of payments (factoring).
- Leasing;
- Issuance, purchase, sale and servicing of checks, promissory notes and other turnaround pay documents;
- Issuance of bank pay cards and transactions with such cards;
- Consulting and information services regarding banking transactions;
- Transactions with foreign currencies;
- Sale and purchase of securities under instructions of customers;
- Transactions at security market in its name (including underwriting).

The Bank positions itself as a universal bank offering an integral service package to legal entities and individuals. The Bank subdivides corporate customers into three business lines: large and medium corporate customers, small and micro customers, agricultural customers as a separate business line. Individuals are subdivided into retail (mass and medium segment) and VIP (premium segment).

In 2022, the Band focused mostly at maintenance of existing customers' base, uninterrupted services in all segments and implementation of measures of restructuring ad collection of loan portfolios. Within this framework the Bank suspended crediting of individuals for a certain period, concentrating on restructuring/refinancing of debts of its customers who faced problems resulting from full-scale war.

Anyhow, the Bank renewed crediting of individuals in IV quarter of 2022. The Bank actively communicated with corporate customers, concentrating on restoration of scope of commission income and collection of interest under loan portfolio. New financing was weighted based on analysis of resilience of business models of corporate customers before commencement of full-scale aggression; although total scope of financing decreased, the Bank continued to support its customers. The Bank applied restructuring in certain cases, in particular to regions suffering occupation. In general, universal business model of the Bank did not change.

As of the commencement of full-scale military aggression, the Bank reviewed limits of all risk positions and all revocable loan limits. The Bank implemented credit holidays for individual borrowers in accordance with recommendations of the regulator. Procedure of automatic withdrawal was suspended in the first days of war. In second quarter of 2022, the Bank revised its strategies regarding work with individuals' portfolio and implemented steps necessary to ensure maximal repayment of portfolio (restoring communications, switching on automatic withdrawal, working on settlement of debts). As of 3 01.07.2022, the Bank started the program of restructuring of loans to individuals and, as of 4 quarter of 2022 – the program of refinancing of doubtful debts, this improving structural quality of loan portfolio and preventing further accumulation of NPL. As of 4 quarter of 2022, the Bank renewed crediting of individual through traditional channels of sale/products by implementing top-up program, CPA channel and walk-in channel in its branches). The Bank continues to develop digital sales channels to improve transactional business and efficiency of servicing of individuals in current situation. The Bank updated its mobile app for individuals and engaged partners to distribute credit products for households. The Bank implemented the project on onboarding of individuals and legal entities by video verification and transfer pf documents via Diya service. Development of digital channels to ensure effective onboarding of customers in the priority for 2023.

In April 2022, the Bank joined the state program of stimulation of crediting through issuance of state guarantees on portfolio basis and signed respective agreement with the agent bank. Within the framework of this program, the Bank is able to improve the structure of existing loan portfolio by refinancing and financing of new borrowers from SME and agricultural sectors. By the end of 2022, the Bank started to decrease loan portfolio in frontline areas prioritizing crediting in new regions for regional diversification of loan portfolio.

Key tasks for 2023:

- Provision of going concern;
- Development of digital sales channels in all segments;
- Preserving Bank market share (mostly liabilities);
- Efficiency control with focus at CIR based on existing infrastructure and minimal investments;
- Diversification of loan portfolio, development of crediting of agricultural sector in new regions, increase pf scope and development of new channels of retail crediting;
- Maintaining of the level on interest payment for corporate and agricultural customers;
- Increase of non-interest income, increase of scope of liabilities by work with existing customers, active growth of diversified SME resources, maintenance of scope of FX transactions.

2. Economic environment

On February 24, 2022, russian federation started full-scale aggression against independent Ukraine by series of missile strikes and land attack across common border, from territory of Byelorussia and annexed Crimea. Nondeclared war and resulting economic and financial instability, uncertainty of further developments and impossibility to determine duration and effect of hostilities may have a negative impact, nature and aftereffects of which on performance and financial position of the Bank cannot be currently determined.

Hostilities continue in several oblasts of Ukraine a year after commencement of full-scale aggression, resulting in massacre of thousands of peaceful persons, while millions of persons temporarily moved from areas covered by hostilities or left the country. Aggressor's attacks aim at destruction of civil infrastructure, including hospitals and residential areas of the country. Ukrainian logistic infrastructure, oil storages and oil refineries, as well as other objects of critical infrastructure were damaged to a certain extent by missile strikes of aggressor. Ukrainian armed forces heroically defend the country striking against russian military groupings. After crushing defeat in the battle for Kyiv and Kharkiv, russian federation implemented patented terrorism: as of October 10, 2022, it introduced massed and methodical missile strikes in regular waves against critical power infrastructure of Ukraine. Aggressors planned to break Ukrainian electric power system into separated islands by ruining key transformer substations, thus stopping crossflow of electric power between regions, paralyzing Ukrainian economy, provoking panics in population to affect motivation of Ukrainian soldiers and population. Ukrainian electric power infrastructure was restored by power engineering specialists. Railway and road logistic network continue to function, as Ukraine has a well developed railway and road system. As of commencement of hostilities all sea ports on Black and Azov seas stopped their operations, sea export was completely frozen. In order to ensure food safety in the world, with the assistance of United Nations Organization and Turkey, on July 22, 2022, a treaty on safe transportation of grain and foodstuffs (so-called grain treaty) was signed in Istanbul. The signed documents provide for safe navigation to export grain and related foodstuffs, fertilizers, including ammonia from Ukrainian sea ports of Odessa, Chornomorsk and Yuzhny. The ships will cross Black sea by special mine-free corridors. All merchant ships shall come to Turney for inspection. Term of the grain treaty was 120 days and was extended two times in spite of blackmail of the aggressor country.

As a result of full-scale attack the President of Ukraine by his Decree №64/2022, as approved by Law of Ukraine *On Introduction of Martial Law in Ukraine* № 2102-IX of February 24, 2022, introduced martial law in Ukraine as of 05.30 AM of February 24 for 30 days. Later on the President of Ukraine extended martial law by his decrees.

In the circumstances of full-scale hostilities, NBU changed its traditional approach of inflation targeting to its monetary policies. At the onset of dull-scale war NBU introduced administrative limitations of currency market and capital flows to save macroeconomic stability in the country, constraint panics and prevent growth of inflation spiral. So, NBU introduced a set of temporary limitations of work of banking system and currency market in Ukraine, except for sale of currency to customers; an official FX-rate as at the date of commencement of military aggression was fixed; cash withdrawal from bank accounts was limited; cash withdrawal from bank accounts in foreign currency was prohibited; cross-border currency payments (except for payment for critical import) were disallowed; securities market was temporarily suspended; servicing of expense transactions from accounts of residents of aggressor country by banks was stopped; the banks were prohibited to engage in any currency transactions in RUB and byelorussian roubles or transactions with legal entities or individuals located in russia or Byelorussia.

National Bank of Ukraine, in order to support stability of banking system through minimization of negative effect of russian military aggression against Ukraine, approved the decision on non-application of punitive measures for violation of economic ratios and limits of open currency position by banks, as well as term of filing of respective reports, if the violations took place after February 24, 2022, as a result of negative impact of military aggression; implemented requirements on credit risk limits under active banking transactions and management of nonperforming assets (NPA); approved rules of blank refinancing of banks to support liquidity of banking system; provided for free access of wide range of investors to government bonds issued to cover military needs of Ukraine and fight against enemy; annulled decision on increase of ratios of mandatory provisioning, decided not to perform annual bank resilience measurement in 2022, introduces by Regulation of measurement of resilience of banks and banking system of Ukraine № 141 (with changes and amendments) of December 22, 2017, and so on.

In June 2022, NBU returned to active interest rate policies, significantly increasing discount rate (from 10% to 25%). Gradually, NBU reduced the scope of budget monetizing and stopped emission financing as of early 2023. On July 21, 2022, NBU adjusted official UAH/USD FX-rate by up to UAH 36,5686/USD 1. At the same time, strict correlation of UAH FX-rate to USD is the key stabilizing instrument of monetary policies in current situation. NBU takes steps to balance currency market position and enforce transmission mechanism of its monetary policies as the precondition to return to traditional format of inflation targeting.

As of commencement of full-scale war, inflation rate went up mostly due to factors of proposal. Still, in spite of war-related challenges and high-inflation environment, the inflation was manageable and stabilized by the end of the year. Consumer prices went up by 26.6% in 2022, with inflation index being close to stable during last three months of 2022. Inflation pressure was stabilized due to liberation of territories, improvement of supply of foodstuffs and decreased consumers' demand as a result of power-supply terror of russia. Inflation was stabilized due to unchanged tariffs for utilities, fixed UAH FX-rate and restoration of logistics. NBU steps, namely, introduction of deposit instruments to hedge currency risk and limited monetization of budget also assisted in stabilization of cash currency market situation by the end of 2022. Still, price pressure is significant as the result of the war, including ruining of factories and infrastructure, disruption of chains of supply and production. Expenses of businesses went up as a result of electric power terror of russia. Inflation expectations were still high in spite of stabilization. NBU forecasts that in 2023 inflation would slow down to 18.7% as a result of strict monetary measures, slow-down of international inflation and lower demand caused by shortages of electric power supply. Inflow of announced international aid, as well as common steps by NBU and government to activate internal borrowings market would help to evade emission financing of budget deficit and balance currency market.

Grounds for restoration of economy, that arose in 2-3 quarters, were ruined by russian acts of terrorism against power engineering infrastructure in October 2022. NBU estimated that in 2022 Ukrainian economy decreased by 30.3% annual. Major reasons for the most dramatic recession in the history of the country were the effects of full-scale war: ruining of infrastructure and production facilities, disruption of logistics chains and drop of export, decrease of investments and low consumers' demand partially due to active migration and harvest that was significantly lower than in previous year. Grain crops harvest in 2022 was lower by 40% compared to record-breaking harvest of the previous year mostly due to significant decrease of harvested areas as a result of occupation and mined territories. As a result of electric-power terror of russia Ukrainian GDP in IV quarter of 2022 went down (by 35% annual). Trade and service entities quickly adapted to power shutoffs. Impact of shutoffs to agricultural sector was also limited, while industrial entities, in particular, metallurgy faced significant losses. Still, due to better results of III quarter and quick adaptation of some businesses and population to new conditions, estimate of real GDP drop in 2022 was improved and corrected to 29,2%. NBU expects some increase of real GDP in 2023 – by 0.3%. Key risks still are electric power terror and length of existence of safety risks, resulting in delay of full-scale opening of sea ports, this suspending export rehabilitation potential. Besides, NBU forecasts that accumulated problems related to sowing and harvesting campaigns during the war would cause the decrease in crops harvested. Decrease of safety risks, restoration of full-scale operations of sea ports, increase of crops harvested, gradual restoration of production facilities, improvement of logistics and increase of local demand, including return of forced migrants, would help to improve Ukrainian economy in 2024–2025. Soft fiscal policy would also play its part.

Financing of military and social expenses, and support of economy critically depends on international aid and its timely inflow. In 2022, Ukraine received over USD 32 billion where over USD 14 billion were grants. Due to this aid, the government managed to finance major part of budget deficit (over 27% of GDP without grants) and increase international reserves up to USD 28.5 billion by the end of the year. Current level of reserves is adequate to stabilize currency market. Keeping in mind already declared scope of international aid and progress in discussions with IMF, total scope pf official financing in 2023 may be over USD 38 bullion, thus making it possible evade emission financing of budget deficit in 2023 and maintain international reserves at adequate level even in case of longer continuation of high safety risks. It is expected that by the end of 2023 international reserves would be close to USD 27 billion and continue to grow.

In 2022, there were seven meetings of ministries of defense of several dozen countries in Rammstein format establishing an actual coalition for international defense support of Ukraine.

On March 31, the Board of executive directors of IMF approved *The Extended Fund Facility* (EFF) four year program for Ukraine of USD 15,6 billion (SDR – 11,6 billion). The program is a part of the package of Support of Ukraine by international partners for USD 115 billion. The decision of the IMF Board of directors provides for immediate first tranche of USD 2.7 billion to Ukraine (SDR - 2 billion). Subsequent tranches would be transferred based on quarterly reviews of the program. During this year, Ukraine has a possibility to receive three tranches for total of USD 4,5 billion (SDR - 3,3 billion). Key focus of the program is support of fiscal, international, price and financial stability, as well as gradual economic rehabilitation of Ukraine during after-war restoration and joining EU.

Discount rate is stable at the level of 25% as of June 2022. At the same time, NBU increased its requirements to mandatory reserves of the banks, as declared in December. As of February 11 ratio of mandatory reserves under funds on demand and funds at current accounts of corporate customers and individuals increased by 5 percent; the same applies to deposits and funds at current accounts of other non-resident banks and loans from international and other organizations (except for financial ones), namely, from 5% to 10% – in local currency and from 15% to 20% – in foreign currency. Besides, as of March 11 mandatory reserves under funds on demand and funds at current accounts of individuals in local and foreign currencies increased by 10 percent. Still, this part of reserves is not covered by mechanism of coverage for state bonds benchmark. NBU expects that the above measures would reduce surplus of liquidity in the banking system. The above would stimulate the banks to compete for term deposits of depositors and increase the share of term deposits. It would result the resilience of currency market to situational factors, while NBU may soften administrative limitations for business and individuals. NBU expects to keep discount rate as the level of 25% at least until the end of I quarter of 2024. NBU is ready to implement further measures to evade emission financing of budget deficit, increase attractiveness of UAH assets, improve stability of currency market and form proper preconditions for decrease of administrative limitations.

In order to provide for stability of banking system, the changes were introduced into the laws related to guarantees regarding deposits of individuals, stating that during martial law in Ukraine and for three months after its suspension or termination the Deposit Guarantee Fund will compensate funds of each depositor in full (previous limit - UAH 200 thousand). This rule covers the banks that were registered as insolvent or which banking license was withdrawn after April 13, 2022, during martial law in Ukraine and for three months after its suspension or termination. After termination of three months after suspension or termination of martial law in Ukraine, Deposit Guarantee Fund would guarantee compensation of not more than UAH 600 thousand.

Credit risk continues to be the biggest threat for banking sector. As of commencement of full-scale invasion, allocations to allowances are close to 11% of performing loan portfolio of the banks as at the end of February. Retail loans and loans to entities, suffering significant losses of production facilities and sales markets have the highest risks.

Still, banking sector is operationally profitable, thus having the first line of defense to cover losses under loans.

NBU intends to measure resilience of the banks in 2023 to assess and confirm correctness of disclosure of loan portfolio quality, adequacy of provisions and allowances, measurement of real regulatory capital. Based on results of measurement, NBU will set transitional period for restoration of capital to minimal regulatory values.

Ukrainian economy functioned in the circumstances of full-scale war in 2022. Safety risks determine the prospects of its future development. The biggest risk in this situation is intensification or extended length of hostilities in Ukraine. Each month of russian aggression results in significant human and economic losses, as well as deterioration of prospects of development. Increase of electric power deficit through ruining of power infrastructure is a significant risk to be taken into account in forecast of economic activity. Significant shortage of generating capacities would result in extended shutoffs of industrial consumers reducing their economic activities. Partial deblocking of Ukrainian Black Sea ports for export of foodstuffs somewhat reduced negative effect of disruption of logistic relations with trade partners. Still, there is a significant risk of closing or complication of work of grain corridor. This would deteriorate the export of agricultural products and decrease currency inflow into the country. Forced limitations of export would slow down foodstuff inflation in Ukraine by increased supply to local market. Still, this situation would negatively affect expectations of agricultural producers regarding sale of future crops with subsequent decisions to reduce areas under crops, thus decreasing their economic activities. Basic NBU macro-forecast scenario shows visible decrease of safety risks only in early 2024. As a result, expected full-scale deblocking of sea ports and decrease of premium for Ukraine-related risks are moved further on. Intensification and continuation of war, higher than expected deficit of electric power through acts of russian terrorism may significantly limit economic activities and increase inflation pressure. There are other actual risks, which, if realized, may cause the review of key macroeconomic indices, namely, origination of additional budget needs and formation of significant quasi-fiscal deficits in electric power sphere through unforeseeable nature of war; delay of return of large number of people to Ukraine and potential additional migration from Ukraine limiting consumers’ demand and threatening growth of structural problems at labour market and decrease of economic potential; irregular inflow of external financing; complications in work of grain corridor. On the other hand, quick implementation of rehabilitation plan for Ukraine with respective inflow of official and private financing may significantly improve economic growth.

Effects of war are changing day by day, while their long-term impact cannot be determined. Their impact on Ukrainian economy depends on how russian aggression against Ukraine would end, on successful implementation of new reforms by Ukrainian government, strategy of rehabilitation and transformation of the country in order to get EU membership and cooperation with international funds.

Management of the Bank believes that it implements proper measures to ensure stale bank operations, as required by current situation, although further instability of business environment may negatively affect the performance and financial position of the Bank, undeterminable at the moment. These annual financial statements reflect current assessment of impact of conditions of business in Ukraine on affect the performance and financial position of the Bank. Future developments may differ from management estimates.

3. Goals of managements and strategies

Bank Credit Dnepr is a universal bank, operating throughout the country, engaging in transparent business and valuing its reputation.

Strategic goals of the Bank are based on principles of maximal profitability of capital, meeting of demands of real sector of economy, improvement of risk management in the Bank.

Perspective plans of Bank development include:

- Increase of market capitalization of the Bank through increase of own capital by reaching its optimal profitability and adequacy; diversification of customers' base by development of retail business and attraction of new corporate customers;
- Diversification of loan portfolio for Corporate and Agricultural businesses, development of agricultural sector in new regions, increase of scope and development of new channels of crediting;
- Increase of noninterest income, increase of scope of liabilities through work with existing customers, active increase of diversified resources for SME, maintaining the scope of FX transactions;
- Development of small and medium business through creation of passive and comfortable settlement products meeting everyday need of customers in this segment, and by increase of crediting of small entities in agriculture;
- Development of retail business by increase of crediting of individuals through cash loans and card products, development of crediting under mortgage of residential premises and cars, improvement of internet banking, development of VIP banking and innovative deposit products;
- Development of remote sales channels, development of comfortable bank products and automation of bank processes;
- Effective integration into international financial system by extension of cooperation with international financial institutions.

Major criteria of Bank's success is achievement of key performance indices (KPI), namely: level of operating income, corporate loan portfolio, Agro, SME, new retail nosiness portfolio, level of commission and trade income, development of operations at financial markets and flexible management of securities portfolio. The Bank regularly operatively monitors compliance with planned KPIs.

Strategic vision of the Bank is growth within the model of universal bank through development of all segment (business) lines: large and medium business, small and microbusiness and retail business, each of them having own focus and goals without loss of synergy between business lines.

As to large and medium corporate business, the Bank will focus on development of passive and transactional products and prudent crediting, keeping risk appetite within acceptable limits; subsequently (after termination of hot phase of war and decrease of level of uncertainty), the Bank plans to resume the active growth of loan portfolio above market rates.

As to small and microbusiness, the Bank will focus at increase of active customers' base passive and transactional products and provision of service support to customers. Development of crediting shall be an additional service and an anchor for liabilities-creating customers with gradual strengthening of this line. The Bank plans to introduce new-customer-bank services for legal entities to improve level of customers' services stimulating growth of active customers' base and improving operating efficiency.

As to retail business, the Bank plans to increase loan portfolio by development of credit products, namely, mortgage crediting under state programs, crediting of restoration of damaged property, other target crediting, consumer's and cash crediting. The Bank works to increase functions and constant improvement of customers' experience with mobile app.

2023 business plan foresees careful expansion of separated departments into regions where the Bank is not present currently, in particular, western Ukraine. In general, the Bank differentiates opening of branches by two purposes: strategic purpose and business possibilities (opening subject to adequate business results and establishment of clear KPIs for term of recoupment). 2023 business plan includes opening of minimum three new branches in new regions.

Keeping in mind military aggression of russian federation, 2023 Bank priorities are:

- Services to legal entities:

- Diversification of loan portfolio, increase of share of agricultural loans in new regions, increase of noninterest income;
- Increase of scope of transactions by intensification of work with existing and new customers;
- Maintenance of level of interest payments;
- Maintenance of FX income;
- Creating of efficient digital sales and servicing.

- Services to retail business customers:
  - Development of the channel for effective onboarding of customers remains a priority;
  - Attraction of new customers by introduction of new products and channels.

The Bank plans to revise Strategy of operations, taking into account changes in economic environment, after termination of martial law.

4. Financial resources

One of major tasks of the Bank after introduction of martial law om February 24, 2022, was to ensure uninterrupted work and preserve stability of sources of funding. Keeping in mind uncertainty regarding possible outflow of customers' funds in the initial days of war, the Bank decided to use blank refinancing by NBU of UAH 1 billion for one year; still, due to stabilization of the situation and adequate liquidity, the Bank repaid the above refinancing loan in advance on 31.03.2022.

As a result of increase of discount rate in June 2022 and review of monetary policies by the regulator, causing significant increase of cost of refinancing (25%), the Bank actively worked to decrease the level of debt under NBU loans to level interest rate of hedged swap transactions entered into with NBU (UAH 1 140 million). So, in 2022 the Bank repaid in advance refinancing loan of UAH 1 995 million keeping liquidity index with significant safety margin.

The Bank has a lot of customers – individuals, small, medium and large entities of different industries. Resource base of the Bank is diversified by sources of attraction (funds of individuals and legal entities), while funds of legal entities are diversified by types of businesses. These factors reduce Bank sensitivity to liquidity risk.

As at the end of 2022, customers' funds reached UAH 16 310 million (2021: UAH 14 484 million) The Bank repays its liabilities toward depositors and creditors in time and in full.

A share of highly liquid assets of the Bank (cash and cash equivalents, cash in other banks, investments into NBU certificates and state bonds (SB)) is quite high - 78% of liabilities. Funds at correspondent account in NBU are adequate for servicing of customers and compliance with own obligations, namely, formation and maintenance of mandatory reserves. A major part of funds at correspondent accounts is kept in non-resident banks of investment category.

As at the end of 2022, liquidity indexes of the Bank were higher that ratios prescribed by National Bank oof Ukraine:

- Actual arithmetical mean value of liquidity coverage ratio (LCR) for all currencies was 224%, when prescribed minimal value is 100%;
- Actual arithmetical mean value of LCR (for foreign currencies) was 278%, when prescribed minimal value is 100%;
- Net stable financing ratio (NSFR) was 163%, when prescribed minimal value is 90%.

5. Labour resources, social aspects and personnel policy of the Bank

Labor resources of the Bank are its staff, whose level of professional training, qualification (set by knowledge, experience, skills, work attitude) make it possible to perform its professional functions with high quality ensuring efficiency, productivity and further development of the Bank.

Total number of employees of the Bank (net of persons in maternity leaves) as at 31.12.2022 was 704, where 445 are females (63%). Share of females at leading positions in management board and heads of independent structural departments is 47%.

Personnel policy corresponds to strategic goals of development of the Bank, priority of certain business lines, taking into account potential of each individual and aiming at training, development and career growth of personnel.

Under martial law, introduced in Ukraine in 2022, major principle of HR policies was provision for safety of personnel used as a basis for implementation of the following principles:

- Provision of the Bank with qualified staff, able to implement Bank strategies due to business and personal qualities;
- Introduction and timely adjustment of staff motivation systems;
- Support of system of corporate values (corporate culture).

Head hunting is based on internal Bank regulation *Rules of Search, Selection and Adaptation of Personnel* in accordance with the following principles:

- Provision of the Bank with staff of maximum quality within the shortest possible time;
- Maximally effective use of Bank resources.

All persons, wishing to work in the Bank, have equal rights for vacant positions, except for cases, described by Ukrainian law.

The Bank actively places vacancies at well-known head hunting sites and uses social networks, namely Facebook and LinkedIn in search for personnel.

The Bank does not permit for any display of discrimination or harassment at work, including employment, labour remuneration, and advancement. All Bank employees enjoy equal rights and possibilities irrespective of their sex, race, sexual orientation and self-identification, language, ethnicity or nationality, religious convictions or different disabilities. The Bank values team work when every opinion is valued.

Adaptation of staff is a set of steps of the Bank for quick accommodation and adaptation of a new employee to essence and conditions of works, including corporate culture of the Bank.

Motivation of staff in the situation of martial law is a component providing for material and moral support of employees. After February 2022, the Bank revised system of motivation of employees taking into account its new strategic goals and capabilities. The Bank met all its obligations toward its personnel regarding payment of bonuses based on results of its work in 2021.

The Bank moved its training programs to digital format using corporate online messengers (WorkChat, Zoom) to preserve personnel of proper competencies and ensure its professional development. Classic training sessions and workshops were held in the above messengers and system of remote training of the Bank, taking into account actual map of alerts.

External providers of services on training and development of personnel delivered their services digitally and, in most cases, free of charge, so that majority of Bank employees were able to exchange experience with persons working in other banks and businesses.

Corporate culture is based on Code of corporate ethics and value of the Bank, including:

- simplicity;
- efficiency;
- partnership;
- teamwork.

The Bank implemented a set of measures to support uninterrupted operation, provision for synchronous succession of members of Management Board and other top management by formation of career reserve.

6. Risks

Risks are inherent to banking. The Bank implemented organizational structure of risk management system, ensuring clear segregation of functions, duties and powers between all subjects of risk management system and Bank employees, including respective responsibilities under this segregation. Risk management system corresponds to size, business model, scope of operations, types and complexity of Bank transactions, providing for detection, assessment, monitoring, reporting, control and reduction of all significant risks of the Bank in order to define the equity of the Bank, necessary to cover all significant inherent risks (internal capital), and maintain regulatory ratios of capital adequacy and liquidity.

The Bank makes an integral assessment of the following significant risks: credit risk, liquidity risk, interest rate risk, market risk, operating risk, compliance risk, strategic risk, system risk.

Process of independent risk control does not include such risks as change of environment, technologies and changes in industry. The Bank controls these risks in the process of strategic planning.

Risk management structure

Purpose of risk management system is identification, monitoring, analysis and management of risks, facing the Bank. Risk management system provides for measurement of risk appetite by setting the risk limits and triggers within the set range of risk appetite and constant monitoring of compliance, as well as implementation of control measures.

Subjects of risk management system of the Bank are:

Supervisory Board and its committees: Risk management committee and Audit committee;
Management Board and its collegial bodies:
- I level:
  Assets-and-Liabilities management committee;

Individuals' business committee;
Corporate business committee;
Small and microbusiness committee;
Committee of operating, compliance risks and information safety;
Non-performing assets committee;
Strategic development and Bank transformation committee.

- II level:

Small corporate business committee;

Authorized persons under expert lines/functions:

Internal audit department (third line of defence);
Risk director (CRO) and risk management department (second line of defence);
Head of compliance department (CCO) and compliance department (second line of defence);
Business departments and support departments (first line of defence).

Risk management functions are allocated as follows:

Supervisory Board. Supervisory Board sets the overall Risk-management strategies of the Bank, engages in general risk management and has a right to establish other committees, delegating certain risk-management powers. Supervisory Board is responsible for establishment of integral, adequate and efficient system of risk management for risks faced by the Bank in its business.

Management Board. The Management Board (the Board) implements tasks and decisions of Supervisory Board of the Bank on risk management system, including Strategy and Policies of risk management, Culture of risk management, procedures, methods and other measures of effective risk management.

Committees. In the process of control and management of risks, the Board (first line of defence) delegates certain functions, powers and direct management of risks to specialized Bank committees:

- Assets and liabilities management committee (ALMC) – standing committee for management of active and passive transactions of the Bank and related risks, implementation of principle of collegiate style in decision making in regulation of limits and border values of bank products and transactions necessary for successful compliance with Bank budget;
- Individuals' business committee (IBC) – Bank committee for effective management of business with individuals and related risks;
- Corporate business committee)CBC), Small corporate business committee (SCBC), Small and microbusiness committee (SMBC) – Bank committees for effective management of corporate business and related risks;
- Committee of operating, compliance risks and information safety (COCRIF) – Bank committee for management of operating and compliance risks, and matters of information safety;
- Non-performing assets committee (NPAC) – Bank committee for organization, management and control of work with NPA;
- Strategic development and Bank transformation committee – Bank committee for management of projects and Bank transformation, setting Bank strategies regarding its transformation based on optimization of processes and digital changes, as well as provision of uninterrupted operations of the Bank.

Business departments. Business departments are the first line of defence, being responsible at their level for monitoring of risks and pre-set limits. This level provides to collection of complete, reliable and operative information in risk assessment and reporting system.

Second line of defence. Supervisory Board established standing departments for risk management: department of corporate credit analysis, retail business credit analysis, department of measurement and monitoring of collaterals and compliance department, providing for independence of these departments.

Department of corporate credit analysis, retail business credit analysis, department of measurement and monitoring of collaterals. These risk-management departments are accountable to Chief risk officer (CRO). CRO has a right to be present at meeting of Management Board of the Bank, specialized committees, established by the Board and veto the decisions of these bodies, if implementation of such decisions violates established risk appetites and/or approved risk limits, immediately informing Supervisory Board and/or Risk management committee regarding such decisions.

Compliance department. Chief compliance officer CCO is responsible for operations of the department. CCO has a right to be present at meeting of Management Board of the Bank, specialized committees, established by the Board and veto the decisions of these bodies, if implementation of such decisions violates laws and regulations, respective professional standards, applicable to the Bank, creates conflict of interests, immediately informing Supervisory Board and/or Risk management committee regarding such decisions.

Internal audit. Internal audit department regularly reviews risk management processes of the Bank, including review of both adequacy of procedures and compliance with the procedures.

Credit risk

Credit risk is the risk of financial loss or additional loss, or shortage of planned revenue for the Bank resulting from non-compliance of a borrower or a counterpart with contractual obligations. The Bank implements conservative crediting policies. The borrowers receive credit products only after assessment of all possible risks, related to the business of the borrowers. The Bank diversifies credit portfolio by risk groups, avoiding loans to borrowers with high level of credit risk.

Major methods of credit-risk management are:

- Setting general criteria of crediting eligibility;
- Setting of general crediting terms;
- Setting rules of approval of credit decisions;
- Approval of approaches to loan administering and monitoring;
- Approval of approaches to timely identification and management of non-performing assets;
- Stress testing of credit risk;
- Forming of allowances in accordance with IFRS and measurement of level of credit risk in line with NBU requirements;
- Establishment of border values of mandatory standards in line with current law and internal regulations of the Bank.

Credit quality of financial assets

The Bank manages credit quality of financial assets using internal system of control over risk levels relevant to counterparts and individual portfolios of assets. The system provides for focused management of existing risks, making it possible to compare credit risk for different lines of business, geographical areas and products. The system is based on financial-analytical methods and processed market data as basic data to assess risk of debtors/counterparts.

Management measures impairment of loans to customers by assessment of probability of repayment and collection of advances based on analysis of individual material loans and aggregated loans with similar terms and risk characteristics. Factors to be taken into consideration for assessment of individual loans include history of repayments, current financial position of a borrower, timeliness of repayment and collateral, timeframe to pay interest, conditions of the economic branch, where a borrower operates, etc. Management assesses amounts and terms of future payments to repay principle and interest under a loan and possible income from sale of pledged collateral.

Liquidity risk

Liquidity risk is the risk of impossibility to finance assets in proper terms at proper rates and risk of non-compliance of the Bank with its terms of payments for liabilities at their maturities. Liquidity risk arises in overall financing of operations and management of positions. It includes the risk of impossibility to finance assets in proper terms at proper rates and risk of non-compliance of the Bank with its terms of payments for liabilities at their maturities in usual or unforeseen circumstances.

Purpose of liquidity management is provision of the ability of the Bank to meet its cash and other liabilities, covered by agreements on financial instruments, in time and in full.

Process of liquidity management by the Bank is based on the following principles:

- Day-by-day continuing liquidity management;
- Decisions, made by the Bank, solve conflict between liquidity and profitability in favour of liquidity
- Every agreement, affecting liquidity, must be approved, taking into account liquidity risk.

The Bank uses the following instruments to measure this risk:

- Daily reporting on immediate liquidity;
- Weekly reporting, measuring Bank liquidity at up to 1 month horizon;
- Monthly GAP-analysis of structural liquidity at longer time horizons for local and foreign currencies based on contractual terms and historical statistics on cash flows at customers' accounts.

As a result of integral regular review of the above reports, the Bank is able to identify increase of liquidity risk in time and implement measures to reduce it, if necessary.

Overall approach of the Bank to reduce this risk is maintenance of buffer of high-liquid unencumbered assets in the scope adequate to finance expected contractual outflows and possible payments within unstable part of customers' current accounts. When investing into different financial instruments, the Bank takes into account the term of available resources, both contractual and calculated based on historical stability, and their amount. The Bank calculates cost of support of adequate liquidity within the procedure of internal pricing of its products.

The Bank actively supports diversified and stable sources of financing, including long- and short-term loans from other banks, minimal amount of deposits of legal entities and individuals, as well as diversified portfolios of high-liquid assets to be able quickly and freely meet unforeseen needs of liquidity

The Bank attracts short-term deposits, buys and sells foreign currency and securities, including those under SWAP and REPO contracts, to sustain short-term liquidity. The Bank attracts average- and long-term deposits, buys and sells securities, regulates its interest rate policies and controls expenses to sustain long-term liquidity. When managing liquidity, the Bank takes into consideration the need to have mandatory provisions in NBU, while the volume of these provisions depends, inter alia, over the level of attraction of customers' funds in foreign currencies.

Cash flow risk

Cash flow risk is the risk of impact of structure of assets and liabilities of the bank, as well as external factors on ability of the Bank to execute its current daily obligations and possible peak outflow of funds in time of crisis.

The Bank uses the following instruments to assess this risk:

- Daily reporting of instant liquidity;
- Weekly reporting, assessing Bank liquidity for 1-month horizon;
- Monthly gap-analysis of structural liquidity for longer time horizons for both local and foreign currencies based on contractual terms and historical statistics for cash flows under settlements with customers.

Overall approach of the Bank to minimize this risk is keeping a buffer of highly liquid unencumbered assets making it possible to finance expected contractual outflows and possible payments within unstable part of customers' current accounts.

Interest risk of bankbook

Interest rate risk of bankbook includes the following risks:

- Risk of gaps caused by difference in terms of repayment (for instruments with fixed interest rate) or change of index of interest rate (for instruments with floating interest rate) of assets, liabilities and off-balance positions of bankbook;
- Basis risk, caused by absence of close relation between adjustment of rates, received and paid under different instruments, when all other characteristics are similar;
- Option risk, caused by transactions of the Bank with options (automatic option risk) or existence of incorporated options in standard Bank products (behavioural option risk).

Interest rate risk is measured by effect of changes of market interest rates on interest margin and net interest income. When terms of interest-income bearing assets differ from terms of liabilities with interest payables, net interest income would decrease or increase depending on change of interest rates. Bank management continuously monitors market interest rates for different interest-bearing assets and interest-payable liabilities to manage interest risk.

Interest margins for assets and liabilities with different maturities may increase, if market interest rates change. In reality, the Bank changes interest rates for assets and liabilities based on current market conditions and agreements, taking into account current market terms and reached accord.

To assess this risk, the Bank measures possible effect at net interest income for subsequent 12 months, if one of 6 scenarios is realized:

- parallel shock up;
- parallel shock down;
- short rates shock up);
- short rates shock down (up to six months);
- flattener shock (up to six months);
- steepened shock (up to six months).

Responsibility for credit risk management rests with ALMC, which adjusts interest rates under active and passive transactions based on results of analysis, dynamics of market interest rates and acts of regulators (NBU, FRS, ECB.

Market risk

Market risk is related to unfavourable FX-rate changes, interest rate changes and value of financial instruments. Market risks include default risk, bankbook interest rate risk, credit spread risk, stock exchange, currency, commodities and volatility risks.

Purpose of market risk management is management and control of the risk within the range of pre-set parameters, optimizing profitability to the level in accordance with Bank strategies. The priority rests with provision of maximal retaining of assets and equity based on reduction (elimination) of possible losses and non-generation of income by investing into financial instruments, including foreign currencies and precious metals.

The Bank uses following instruments to measure and manage market risks:

- Risk of default– assessment of credit risk for active banking operations;
- Interest rate risk of trade book and credit risk spread – method of modified duration;

- Volatility risk, exchange, currency and goods risks – method of value at risk (VaR);
- Stress testing of market risks.

Currency risk

The Bank has assets and liabilities, denominated in several currencies. Currency risk arises when actual or predicted foreign-currency assets are higher or lower than liabilities in the same currency. Bank management sets the limits and continuously monitors currency positions in accordance with NBU rules and internal methodology. The Bank separates currency position into banking and trade ones. Policies regarding open currency positions are limited by certain maximal range, set in accordance with Ukrainian law, and NBU closely monitors them every day.

Operating risk

Operating risk is the risk of occurrence of losses or additional expenses, or receipt of lees than planned revenue due to deficiencies or mistakes in internal processes of the Bank, intentional or unintentional acts of Bank employees or other persons, malfunctions of Bank IT systems, or influence of external factors. Operating risk includes legal risk and excludes reputational risk and strategical risk.

Major component of operating risk to be regulated is execution of non-approved transactions, mistakes of personnel, faults and errors in work of computes networks and equipment.

In order to minimize operating risk and prevent possible losses, the Bank continuously identifies and collects data on internal and external factors of operating risk. Based on the information collected, the Bank forms an analytical database on detected events of operating risk, disclosing information on types and scope of operating losses by business lines of the Bank, certain Bank transactions and contracts, circumstances of their origination and identification.

The Bank uses the following methods of addressing the risk:

- Acceptance of the risk – analysis of circumstances of detection of the risk shows that implementation of steps to minimize it is not economically justified;
- Minimization of the risk – implementation of measures necessary to reduce identified risk to acceptable level; avoidance of the risk – refusal to enter into banking transaction/processes with risk level unacceptable to the Bank even if additional control procedures are implemented.

One of key tasks of the Bank is provision of uninterrupted operation. The related strategic goals of the Bank is evasion or maximal decrease of losses (material, operational, etc.) related to possible termination of functioning of one or several business processes of the Bank in extraordinary situations and realization of threats, including unforeseen ones.

Key related measures of the Bank are:

- Implementation of several methods of remote access of its employees to Bank software complexes;
- Creation of stand-by sites with access to critical IT systems and their replication in cloud storage;
- Creation of stand-by sites for critically important personnel on duty.

Compliance risk

Compliance risk is the probability of losses and/or penalties, additional losses or deficiency of planned income or loss of reputation by non-compliance of the Bank with laws and regulations, market standards, rules of fair competition, rules of corporate ethics, existence of conflict of interests, as well as with internal documents of the Bank.

The Bank strives to maximally avoid compliance risks by high-level culture of compliance risks management, continuing training of personnel, strict compliance with Ukrainian laws, regulations of National Bank of Ukraine and internal documents of the Bank, assessment of external and internal factors, which may lead to compliance risks, and timely responses to them. Major goal of Compliance department is development and implementation of continuously functioning system of compliance-risk management corresponding to size of the Bank, business model, scope of operations, types of complexity of Bank businesses and support of internal control system.

For control of levels of compliance risk and internal control deficiencies, the Bank implemented efficient system of:

- Detection of compliance risks and incidents, provision for timely reaction to them;
- Provision of control over compliance of Bank operations to current Ukrainian law, including rules and regulations of National Bank of Ukraine;
- Detection of potential and actual conflicts of interest, ensuring their timely avoidance / prevention;
- Use of compliance department for solution of problems within its competence;
- Analysis of new products and significant changes in Bank operations (before their introduction);
- Analysis of counterparts;
- Compliance with legal requirements, including 'military decrees' and sanction limitations which is specifically important during the period of military aggression of russia against Ukraine;

- Analysis of decisions of collegial bodies of the Bank;
- Analysis of reports of Bank departments, including audit reports, etc.;
- Provision of control over compliance of Bank regarding timely and reliable financial and statistical reporting, related-party transactions, etc.;
- Escalation of detected risks and/or violations and organization of the process of addressing them;
- Reporting, at least once per month, to the Board and at least once per quarter to Supervisory Board.

Strategic risk

Strategic risk is the probability of losses or additional expenses, or deficiency of planned income through wrong management decisions and inadequate reaction to changes in business environment.

Model of management of strategic and system risks by the Bank focuses on maximization of profit at acceptable level of risks. The Bank views management of these significant risks as the process of identification of system and strategic risks, assesses and monitors them, taking into account interrelations between these and other risks.

7. Related party transactions

The Bank provides loans to customers, attracts deposits and engages into other transactions with related parties in the usual course of the business. The Parties are considered to be related, of one of them has a possibility to control another one or significantly influence its financial and operating decisions. Terms of related parties’ transactions are set at the moment of execution of transaction.

Related parties include the Shareholder of the Bank, members of Supervisory Board, members of the Board and their close families, companies where the Shareholder, key management or their close families exert control. Key management is composed of authorized persons, who are responsible for planning, management and control of Bank activities directly or indirectly, including members of the Board and Supervisory Board. Business entities are not considered as related parties simply for the reason of having common director or other person of key management, or a person of key managements having significant influence on other business entity.

Bank management believes that terms of 2022 related party transactions did not differ from terms offered for independent parties.

As at December 31, 2022, scope of loans to and liabilities of related parties was UAH 158 247 thousand. Loans of UAH 10 232 thousand were issued to related parties and UAH 104 449 thousand were repaid during the reporting period. Interest income under loans to related parties for the year ended on December 31, 2022, was UAH 37 131 thousand.

As at December 31, 2022, scope of attracted related parties’ funds was UAH 2 019 689 thousand. Interest expense under related parties’ funds for the year ended on December 31, 2022, was UAH 101 986 thousand.

During the reporting period the net commission income of the Bank under related parties’ transactions was UAH 5 846 thousand.

Compensation of key management personnel for the year ended on December 31, 2022, is represented by short-term payments of UAH 85 163 thousand (2021: UAH 49 945 thousand).

Remuneration for the members of the Supervisory Board for the year ended on December 31, 2022, was UAH 5 618 thousand (2021: UAH 9 11 thousand).

Related party transactions of the Bank and balances at related parties’ accounts as at December 31, 2022, are disclosed in Note 30 to the financial statements of the Bank for the year ended on December 31, 2022.

8. Equity management

Regulatory capital

The Bank actively controls the capital adequacy ratio to prevent the inherent risks, comply with external requirements to equity and support high credit rating and capital adequacy standards, necessary to continue operations and maximize welfare of Bank’s shareholders. Capital adequacy is controlled, inter alia, through implementation of methods, principles and ratios, set by Basel accord (approved in July 1988 with November 2005 changes and amendments, taking into account, inter alia, inclusion of market risk), and standards, introduced by NBU for banking oversight purposes.

The Bank control structure of its capital and adjusts in accordance with changes in economic situation and risk characteristics for Bank activities. There were no changes in 2022 in purposes, policies and procedures of capital management compared to previous years.

NBU capital adequacy ratio

NBU sets requirements to the level of capital of the banks and controls the compliance. In accordance with current capital adequacy requirements of NBU, the banks must keep the risk weighed capital-to-assets ratio (capital adequacy ratio in accordance with Ukrainian legal requirements) above certain minimal level. If a bank does not maintain or does not adequately increase its equity in line with increase of its assets, weighed for risk, the bank may violate set ratio of capital adequacy, resulting in application of penalties by NBU with subsequent negative effect on financial performance and financial position.

As a result of full-scale military aggression of russian federation against Ukraine on February 24, 2022, a martial law was declared in the country. In order to minimize negative effects of this aggression and preserve stability of Ukrainian banking system, the NBU Board approved Decree №23 of 25.02.2022 (with changes and amendments, introduced by NBU Board approved Decree №40 of 07.03.2022), whereas commercial banks of Ukraine shall not be penalized during martial law for violation capital ratios and other mandatory economic ratios and limits of open currency position, if these violations occurred as of February 24, 2022, as a result of negative impact of russian military aggression against Ukraine.

National Bank of Ukraine, in order to support financial stability of Ukrainian banking system, taking into account unfavorable changes in macroeconomic environment, each year performs asset quality review (AQR) as of 2018 and stress tests for the largest banks (as per decree of the NBU Board №40 of 07.03.2022 annual measurement of banks and banking system resilience was not performed in 2022).

In accordance with Decree of NBU Board №141 *On Approval of Regulation on Measurement of Resilience of Banks and Banking System of Ukraine* of December 22, 2017 (hereinafter – Regulation 141), resilience of the largest banks of Ukraine is measured in three steps with participation of an independent auditor. At first stage, independent auditor reviews quality of assets of a bank and adequacy of provisions under loan transactions. At second stage, NBU extrapolates the results achieved and calculates capital adequacy index. The last stage is stress testing of a bank for two macroeconomic scenarios – basic and unfavorable. Stress testing includes assessment of effect of negative factors on adequacy of bank capital to cover the risks.

In 2021, in accordance with TOR for assessment of resilience of banks and banking system of Ukraine, approved by decision of the Board of National Bank of Ukraine №39-рш of 08.02.2021, the Bank passed the resilience test in three stages. Necessary level of regulatory capital adequacy index (H2) is 18,2%, while necessary level of core capital adequacy ratio (H3) is 17,3%. As a result of steps taken and actual events, occurring in the operations of the Bank after January 1, 2021, the Bank witnessed decrease in need of capital down to UAH 270 mln. The Bank did not require attraction of additional capital to reach the above ratios; it was rather necessary to implement certain measures to reduce key business risks, namely, decrease of possible adverse impact of nonspecialized assets to core capital. Supervisory Board of the Bank (minutes №29 of 21.10.2021) approved Program of capitalization/restructuring of JSC "BANK CREDIT DNEPR» for the period up to 30.06.2022 (Capitalization program), reviewed and approved by decision of NBU Board №555-рш/БТ of 12.11.2021. In December 2021, the ere were sales of land plots in accordance with the plan, generating sales profit for the Bank of UAH 2,2 million. In addition to sale of land plots, in September – December of 2021 the Bank sold nonspecialized assets, decreasing core capital, for total of UAH 26,1 million generating sales profit of UAH 3,4 million. Besides, in January – June 2022 the Bank sold nonspecialized assets under contracts signed before commencement of russian military aggression for total of UAH 19,5 million. Due to above, as at the date of finalization of Program of capitalization (as at 01.07.2022) the Bank executed all Program planned measures and necessary values regulatory capital adequacy index (H2) and core capital adequacy ratio (H3), namely, H2=18,9%, H3=9,5%, while reducing need in capital, namely, regulatory capital adequacy index (H2) down to 10% and core capital adequacy ratio (H3) down to 7%.

Due to channelling of retained earnings (UAH 56,6 million) of previous years to increase reserve fund of the Bank and coverage of losses of previous years (UAH 420 million) by the Shareholder, as at 31.12.2022 structure of regulatory capital of the Bank improved significantly: share of core capital in regulatory capital reached 78% (31.12.2021 - 50%), thus increasing strength regarding capital requirements.

As at December 31, 2022, the Bank complied with NBU requirements and recommendation as to capital ratios, namely, regulatory capital index (H1) is UAH 1 476 million (December 31, 2021: UAH 1 508 million), regulatory capital adequacy index (H2) was 23,6% (December 31, 2021: 17,2%) (with requirement of not less than 10%), core capital adequacy ratio (H3) – 18,5% (December 31, 2021: 8,6%) with requirement of not less than 7%).

9. Performance and prospects of further development

2022 income of the Bank is UAH 6,6 million (2021: UAH 566,3 million). Financial performance of the Bank for this period was affected by operating performance, allocation to reserves and revaluation of investment property.

Operating profit of the Bank in 2022, net of derecognition of financial assets, receipt of non-repayable financial aid, revaluation of investment property, revaluation of interest rate swap and allocation to reserves, was UAH 501,4 million (2021: UAH 392,6 million). So, net operating profit of the Bank in 2022 is UAH 108,8 million more compared to 2021.

Increase of NBU discount rate and increase of amount of customers' funds resulted in increase of interest income of the Bank, reaching UAH 2 039,5 million in 2022, or UAH 610,2 million more than in 2021 (UAH 1 429,3 million), and increase of interest expenses up to UAH 1 199,4 million, or UAH 573,9 million more than in 2021 (UAH 625,5 million). In accordance with the statement of cash flows net interest income was UAH 825,3 million, or UAH 74,2 million more than in 2021 (2021: UAH 751,1 million). 2022 net commission income increased by 7,7% reaching UAH 265,6 million.

In 2022 and 2021, the Bank performed valuation of fair value of investment property by independent appraisers, and, based on the results of appraisal, Management Board of the Bank decided to adjust value of objects, where fair value of property differed from its carrying amount. The adjustment of fair value resulted in recognition of negative result of UAH 188,6 million (2021: UAH 126,9 million).

2022 allocation to reserves of the Bank was UAH 729,8 million (2021: UAH 671,5 million). During the reporting period, the Bank derecognized a share of impaired portfolio of gross carrying amount of UAH 16,9 million (2021: UAH 798,1 million) through its sale and written off impaired financial assets of UAH 2 771,0 million (2021: UAH 350,9 million), although the Bank continues to take steps to compensate written-off debts. Allowance for ECL under loans and advances to customers decreased by UAH 1 232,0 million down to UAH 1 730,4 million.

In 2022, the Bank acquired a title to mortgaged assets under loans and debts of customers for UAH 12,5 million (2021: UAH 96,0 million). In 2022, the Bank continued to sell investment property, selling it for UAH 59,5 million (2021: UAH 601,6 million). Income from disposal of investment property was UAH 7,2 million (2021: UAH 6,8 million).

During the reporting period payroll related expenses were UAH 459,6 million, or UAH 70,3 million more (+18%) than in previous period (2021: UAH 389,4 million). This increase relates to meeting obligations to personnel regarding bonuses for 2021 results. Depreciation charges were UAH 58,7 million, or UAH 10,7 million less (-15,4%) that in the previous year (2021: UAH 69,3). Other administrative and operating expenses of the Bank were UAH 202,0 million, or UAH 16,8 million less (-7,7%) that in previous year (2021: UAH 218,8 million).

In 2022, the following trends characterized the situation of the Bank:

- Total assets of the Bank as at December 31, 2022, were UAH 19 355,9 million, or UAH 1 022 million less (-5,3%) than in previous year (2021: UAH 20 378 million);
- Corporate loan portfolio before deduction of ECL decreased by UAH 3 162,6 million (-44,6%) down to UAH 3 924,1 million, mostly through write-off of bad debts in old nonperforming loan portfolio;
- Retail loan portfolio before deduction of ECL decreased by UAH 38,1 million (-3,1%) down to UAH 1 196,8 million;
- Allowance for ECL of loans decreased by UAH 1 232,0 million (-41,6%) down to UAH 1 730,4 million;
- Investment property decreased by UAH 248,1 million (104,8%) down to UAH 236,8 million;
- Highly liquid assets (cash and cash equivalent, cash in other banks, investments into NBU deposit certificates and SB) increased by UAH 2 056,0 million (17,6%) up to UAH 13 709,6 million.

Structure of the Bank assets as at December 31, 2022, was as follows (share in total Bank assets):

- Loans to customers – 20,0% (202: 28,0%);
- Cash and cash equivalents (including NBU deposit certificates and due from other banks) – 60,7% (2021: 35,8%);
- Investments into highly liquid securities – 10,7% (2021: 27,2%);
- Fixed assets, investment property, intangible assets – 3,3% (2021: 4,5%);
- Other assets – 5,3% (2021: 4,5%).

Equity of the Bank decreased in 2022 by 6,0%, being UAH 1 685,4 million as at December 31, 2022.

In the reporting year, the Bank actively invested into NBU short-term instruments – deposit certificates. As at December 31, 2022, these investments amounted to UAH 5 356,7 million, or UAH 554,3 million more (+11,5%) than as at December 31, 2021. 2922 transactions with deposit certificates generated interest income of UAH 524,7 million, or UAH 357,8 million more than in 2021.

Bank investments into state bonds (SB) and municipal bonds as at December 31, 2022, were UAH 2 080,0 million (as at December 31, 2021: UAH 5 541,6 million). These investments generated interest income of UAH 523,1 million, or UAH 56,7 million more (+ 12,2%) than in 2021.

Transactions with securities and NBU deposit certificates were executed by the Bank within the pre-set limits.

Bank liabilities in 2022 decreased by UAH 914,9 million (-4,9%) down to UAH 17 670,4 million, where 92,3% are customers' funds.

Customers' funds increased in 2022 by UAH 1 825,8 million (+12,6%) up to UAH 16 310,1 million. Funds at corporate accounts went up by UAH 1 595,9 million (+14,4%) up to UAH 12 656,8 million, while funds at individuals' accounts increased by UAH 230,0 million (+6,7%) up to UAH 3 653,4 million. To sum it up: share of funds at corporate accounts in total due to customers increased from 76,4% to 77,6%, while for retail it decreased from 23,6% to 22,4%. Refinancing by National Bank of Ukraine decreased by UAH 1 995,5 million (-63,6%) down to UAH 1 140,0.

The Bank continues to develop along its historical business lines within the framework of universal business model. Corporate business line development will include active attraction of customers for settlement services to form more diversified base of liabilities, continuing cooperation with key business customers, reasonable increasing loan portfolio in industries that adapted to current macroeconomic situation. Small and microbusiness line goal would be to attract new liabilities-creating customers to diversify base of funding and restore active crediting within the framework of state support programs. Agricultural line will focus on support of existing customers with active growth in regions that suffered less from full-scale military aggression. Financial markets line will continue to work actively along debt financing and foreign currency lines to maximize profitability. Retail line will continue to maintain and increase diversified and term liquidity of individuals, developing crediting in order to replace nonperforming loan portfolio. Line of work with bad debts is aimed at active work with portfolios with reduced quality to protect the Bank and minimize losses.

10. Achievements of 2022

Reliability and sustainability of the Bank was confirmed by authoritative rating agencies. Confirmation of the rating is the result of maintaining high level of efficient operations indicators and their improvement, profitable work, adequate capitalization, reasonable diversification of resources, growth performing loan portfolio, adequate level of reserves, low share of NPA in net loan portfolio, significant scope of highly liquid assets and improvement of liquidity ratios, as well as support of the Bank by the Shareholder. Besides, IBI-Rating Ukrainian rating agency confirmed rating of reliability of the deposits in the Bank at level «5», meaning 'high reliability'.

In accordance with analysis of FINCLUB Ukrainian financial agency, adapted to work of banks in conditions of martial law, Credit Dnepr Bank is in TOP-25 of banks in *25 Top Ukrainian Bank during War – 2022* rating. Besides, Chair of Management Board Sergii Panov is included rating of best top bank managers in Ukraine, while Depury Chair, Tetiana Poplavska, is included into *TOP-5 Corporate Bankers* rating.

The Bank received a decoration from SETAM SE of Ministry of Justice of Ukraine. The Bank nonspecialized assets at online SETAM OpenMarket auction for more than UAH 50 million becoming the fifth entity in general and the first commercial bank reaching this level.

The Bank was of the first bank providing for full-value servicing of customers under any threats of time of war due to use of Microsoft Azure cloud technologies.

The Bank joined Power Banking project initiated by NBU. The project is an interconnected network of branches of different Ukrainian banks operating and providing necessary services to customers even in the situations of blackouts. Power Banking network consists of 2 300 branches having alternative power supply and reserved channels of communication, strengthened cash collection and additional personnel. The Bank has 16 branches in this network – 50 % of the Bank network.

The Bank also joined NBU project of national ATM roaming, making it possible for Ukrainians to get cash within the limits of his/her card in ATM of any Ukrainian bank.

Corporate and social responsibility

Credit Dnepr Bank, its personnel, customers, Ukrainian funds and public organizations united for common goal – victory of Ukraine. In 2022, the Bank focused its efforts and implementation of charity programs and projects in medical and social (through own program of corporate volunteering) in Ukraine.

Medical line. The purpose is to assist doctors in provision of maximally professional and quick medical aid to our defenders and average population in order to save their health and lives. The Bank, together with Healthy Future charity fund supplied medical equipment for resuscitation unit wards in Balakliya hospital in Kharkiv oblast. The Bank will continue to support the hospital in subsequent years.

Own program of corporate volunteering

The Bank supported *Christy* school-studio of arts in Striy that accommodated kids from hot spots of the country. The Bank purchased all things necessary to enable kids to continue their development in this sphere, learn new stiles and techniques of painting, as well as organized exposition of kids' paintings.

In partnership with DOF-center public organization, Bank employees and the Bank purchased and delivered necessary assistance to people on Kherson oblast. Over 200 persons, including aged people and children, in villages Luch and Posad-Pokrovske received medicines, foodstuffs, water, hygienic products, etc. Besides, in cooperation with *Our Choice – Ukraine* public organization employees of the Bank provided aid to more than a hundred families from Mariupol, currently living in 53 different towns and villages in 16 oblasts of Ukraine.

11. Corporate governance report

Corporate governance of JSC "BANK CREDIT DNEPR" is based on laws and regulations of Ukraine, national standards and recommendations, international experience and best international practices on corporate governance to form transparent and efficient model of corporate governance of the Bank.

Major principles of corporate governance of the Bank are based on Ukrainian laws and regulations (Law of Ukraine *On Banks and Banking Activities* with changes and amendments, Law of Ukraine *On Joint Stock Companies* with changes and amendments, recommendations of National Bank of Ukraine and Basel principles of corporate governance.

The Bank developed and implemented Code of corporate governance, approved by decision of Sole shareholder of the Bank of June 2, 2022, (Decision №4), stating major approaches, requirements and principles of operation of corporate governance system of the Bank. The Code describes acting corporate governance system, mechanism of its operation and interrelations in order to safeguard rights and interests of shareholders, improve efficiency of the business, increase of transparency and investing attractiveness of the Bank, saving and increasing share capital. Specific procedures and practical implementation of certain elements of corporate management are detailed in and regulated by Statute and internal documents of the Bank.

Major lines of corporate governance of the Bank are:

- Organization of efficient work of Supervisory and Management boards, settlement of matters related to segregation of powers, authorities and accountability of managing bodies;
- Determination and approval of Bank development strategies together with control over their implementation (including formation of efficient systems of planning, banking risks management and internal control);
- Prevention of conflicts of interests between shareholders, members of Supervisory and Management boards, Bank employees, creditors, depositors, other customers and counterparts of the Bank;
- Determination of rules and procedures providing for compliance of all Bank employees and members of managing bodies with principles of professional ethics;
- Determination of procedures, rules and controls over disclosure of the Bank information.

Code of corporate governance – see Bank website www.creditdnepr.com.ua: https://creditdnepr.com.ua/sites/default/files/kodeks_korporativnogo_upravlinnya_nova_redaktsiya.pdf

There were no deviations from provisions of Code of corporate governance in 2022. Besides, in 2022, the Bank took no decisions on non-applicability of any provisions of Code of corporate governance.

Information about the owners of significant participation in the Bank

As at December 31, 2022, 100% of Bank shares are directly owned by Oleg Vladilenovich Yaroslavsky who is the sole shareholder of the Bank. Decisions of general meeting of shareholders are formalized as Sole shareholder's decisions. All decisions of the Sole shareholder are disclosed at Bank's website - see https://creditdnepr.com.ua/pro-bank/rozkryttya-informaciyi/rishennya-yedynogo-akcionera

There were no changes in owners of significant share in the Bank in 2022.

There no limitations of shareholders' right to participate and vote at general meetings.

In 2022, the Sole shareholder of the Bank reviewed the following matters and took the following decisions:

№	Date	Decision
1	12.01.2022	1. Approval of new version of Statute. 2. State registration of new version of Statute. 3. Issuance of extracts from this Decision.
2	13.01.2022	1. Introduction of changes into labour remuneration of Supervisory Board members. 2. Issuance of extracts from this Decision.
3	24.02.2022	1. Approval of entering into additional agreement to General loan agreement №305749-ГК of 30.11.2018 with NBU and legal acts within its framework. 2. Issuance of extracts from this Decision.
4.1	06.05.2022	1. Approval of new version of Statute. 2. State registration of new version of Statute. 3. Issuance of extracts from this Decision.
4	02.06.2022	1. Approval of new version of Regulation on Supervisory Board remuneration of Supervisory Board members. 2. Approval of new version of Regulation on selection, assessment and election of candidates into members of Supervisory Board of JSC «BANK CREDIT DNEPR». 3. Approval of new version of Regulation on remuneration of Supervisory Board members. 4. Approval of new version of Code of corporate management of JSC «BANK CREDIT DNEPR». 5. Issuance of extracts from this Decision.

№	Date	Decision
5	13.06.2022	1. Approval maximal Bank portfolio for government bonds. 2. Issuance of extracts from this Decision.
6	05.09.2022	1. Review of 2021 Report of Supervisory Board of JSC «BANK CREDIT DNEPR» and taking decisions based on review. 2. Approval of annual results – 2021 annual financial statements and management report of JSC «BANK CREDIT DNEPR», review of report of external auditor on audit of 2021 financial statements of JSC «BANK CREDIT DNEPR». 3. Allocation of profit, generated by JSC «BANK CREDIT DNEPR» in 2021. 4. Approval of 2021 Report on remuneration of members of Supervisory Board of JSC «BANK CREDIT DNEPR». 5. Issuance of extracts from this Decision.
7	15.12.2022	1. Approval of allocation of total retained earnings of previous years of UAH 546 911 057,02: - 2020 retained earnings of UAH 37 269 324,06 – coverage of Bank losses of previous periods; - a share of 2021 retained earnings of UAH 382 730 675,94 – coverage of Bank losses of previous periods; - balance of 2021 retained earnings of UAH 126 911 057,02 – lease as retained earnings pf previous periods.

Information on Supervisory Board and its committees

2022 composition of Supervisory Board:

Full name	Position	Independent member	
		Y	N
Aleksandrov Artem Volodymyrovych	Chair	-	X
Chorny Oleksandr Volodymyrovych	Member	-	X
Bolkhovitinov Oleksiy Semenovych	Member	-	X
Fomenko Andriy Vasyliovych	Member	-	X
Biriuk Oleksandr Sergiovych*	Member	-	X
Romanovsky Piotr	Member	X	-
Klesov Andriy Olegovych	Member	X	-

* 14.08.2022 – powers terminated.

Changes in Supervisory Board in 2022

Powers of the member of Supervisory Board of the Bank Biriuk Oleksandr Sergiovych were terminated in line with his application of 01.08.2022 on termination of his powers as the member of Supervisory Board of the Bank as of 14.08.2022.

Meetings and powers of Supervisory Board of the Bank

Supervisory Board holds meeting by form of:

- Common presence of members of Supervisory Board at preselected location to discuss issues on agenda and take decisions by voting or by a video conferences;
- Remote voting by e-poll, using means of digital communications, used by the Bank, or voting at common video conference.

Decisions of Supervisory Board are taken by simple majority of votes. Irrespective of the format of a meeting, each member of Supervisory Board has one vote. If the votes are split equally, the Chair has a decisive vote.

Timing of Supervisory Board meetings comply with approved annual plan of actions of Supervisory Board, or extraordinary meetings are held, if necessary. Annual plan of actions of Supervisory Board is prepared by Corporate secretary of the Bank at the beginning of a calendar year and approved by Supervisory Board at its first meeting of the year. 2022 Plan of actions of Supervisory Board was approved by decisions of Supervisory Board of 29.11.2021 (Minutes №36).

In 2022, Supervisory Board held 26 meetings, where 4 were walk-in meetings (as common presence at video conference with open voting) and 22 – Remote voting by e-poll (using means of digital communications), reviewing matters within its competence. In accordance with Regulation on Supervisory Board of the Bank: competence of Supervisory Board include review of issues in accordance with Ukrainian law, Bank Statute, decisions of General meeting of shareholders (decisions of Sole shareholder) and Regulation on Supervisory Board. Competence of Supervisory Board may be changed by decisions of General meeting of shareholders (decisions of Sole shareholder) in accordance with current Ukrainian law with introduction of respective changes into Bank Statute and Regulation on Supervisory Board. Exclusive competence of Supervisory Board is stated in Bank Statute and Regulation on Supervisory Board.

Within the framework of ats work in 2022, Supervisory Board protected rights of depositors, other creditors and Bank Shareholder within the range of its competence set by Bank Statute and Ukrainian law, controlled and regulated work of Management Board of the Bank. Supervisory Board took part in all major aspects of Bank operations, taking decisions within its competence based on in-depth analysis of events and situation in banking sector.

In accordance with procedures, set by Ukrainian law and internal regulations of the Bank, Supervisory Board controlled:

1) implementation of:

- Bank strategy and business plan;
- Bank plans of action, ensuring functioning of the Bank as going concern.

2) compliance with:

- Code of ethics of the Bank, setting organization of corporate culture and corporate values of the Bank;
- Budget and planned KPIs of the Bank;
- Rules of related party transactions;
- Policies of internal control system of the Bank;
- Declaration of inclination to risks, risk management strategy, significant risks management policies;
- Policies of prevention, identification and management of conflict of interests;
- Procedures of selection, assessment and election of candidates to Supervisory/Management Board;
- Regulation on organization of corporate management in the Bank;
- Regulations on controlling departments.

3) execution of:

- Procedures of organization of management of risks, compliance and internal audit of the Bank;
- Procedures of assessment of efficiency of Supervisory Board in general, its committees and its members, controlling departments, assessment of compliance of members of Supervisory and Managements Boards, head of internal audit department with qualification requirements, assessment of collective appropriateness of Supervisory and Managements Boards.

4) efficiency of:

- Organizational structure of the Bank;
- Internal control, including risk management system;
- Forms and procedures of presentation of management reporting.

In 2022 Supervisory Board performed its supervising and advisory functions based on in-depth analysis and review of all respective facts. Activities of Supervisory Board of the Bank were governed by Laws of Ukraine *On Banks and Banking Activities*, *On Joint Stock Companies*, other Ukrainian laws and regulations, rules and regulations of National Bank of Ukraine, Charter of the Bank, decisions of the General meetings, as well as Regulation *On Supervisory Board of JOINT STOCK COMPANY "BANK CREDIT DNEPR"*.

Supervisory Board Committees

Regulation on Supervisory Board of the Bank states that in order to control work of Management Board and preliminary review and preparation of matters within the competence of Supervisory Board for review, Supervisory Board may establish standing committees for different aspects of Bank operations, namely, Risk committee and Audit committee. Supervisory Boars committees may take decisions on certain matters, if: a) these matters are not within exclusive competence of Supervisory Board in accordance with the law or Bank Statute, and b) the committee was properly authorized by Supervisory Board to tale such decisions without subsequent presentation for review of Supervisory Board.

In 2022, the Bank had the following committees: Risk management committee (until 05.07.2022), replaced by Risk committee (as of 05.07.2022), regulated by Regulation on Risk committee, approved by decision of Supervisory Board of 21.04.2022 (Minutes №8). This Regulation sets functions/powers delegated to the committee, in particular, advance review of matters and preparation of conclusions and recommendations to Supervisory and Management Boards on risk management, including compliance risks.

Audit committee is regulated by Regulation on Audit committee, approved by decision of Supervisory Board of the Bank of 21.04.2022 (Minutes №8).). This Regulation sets functions/powers delegated to the committee, in particular, advance review of matters and preparation of conclusions and recommendations to Supervisory and Management Boards regarding control and regulation of Bank functions in financial reporting, internal control, internal and external audit.

Business committee (operating as of 05.07.2022) is regulated by Regulation on Business committee, approved by decision of Supervisory Board of the Bank of 21.04.2022 (Minutes №8).). This Regulation sets functions/powers delegated to the committee, in particular, in particular provision for uninterrupted management of the Bank, advance review of matters and preparation of conclusions and recommendations to Supervisory and Management Boards regarding basic business of the Bank.

On 21.04.2022, Supervisory Board review the expediency of establishment of Remuneration committee and decided to keep the powers of such committee in Supervisory Board of the Bank (Minutes №8 of 21.04.2022).

Regulations on respective Supervisory Board committee state that sessions of a committee are held when necessary, but not less than four sessions per year.

In 2022, had the following sessions: Risk committee – 4 meetings, one as personal meeting (videoconference), three – as remote voting; Risk management committee (operating prior to establishment of Risk committee): 14 meetings, three of them as personal meeting (videoconference), 11 – as remote voting; Audit committee: 11 meetings, , one as personal meeting (videoconference), 10 – as remote voting; Business committee - 5 meetings, one as personal meeting (videoconference), five – as remote voting.

In 2022, there were no cases of violation of internal rules by Members of Supervisory Board, resulting in damage to the Bank or its customers.

Request for termination of powers of independent member of Supervisory Board of 24.05.2021.

Members of Supervisory Board of the Bank have respective professional knowledge and experience; they properly performed their responsibilities at the meetings of Supervisory Board and its bodies. Independent members of Supervisory Board of JSC «BANK CREDIT DNEPR» Klesov Andriy Olegovych, Romanovsky Piotr have respective professional knowledge and experience; they complied with independence requirements under current law as at the moment of their appointment, as well as during their term as members of Supervisory Board of the Bank.

Major issues reviewed by Supervisory Board with decision taken included:

- Approval of Bank budget;
- Setting the organizational structure of the Bank;
- Approval of internal regulations regarding work of structural departments of the Bank, in particular, those related to risk-management and internal-control (compliance) systems;
- Appointment of external auditor of the Bank, approval of terms of respective contract, including professional fees;
- Review of conclusion of external auditor of the Bank, preparation of recommendations to Sole Shareholder of the Bank regarding respective decision;
- Taking decisions on engagement in active transactions and introduction of changes into terms of financing;
- Taking decisions on appointment of independent appraiser of Property of the Bank and approval of terms of respective contract;
- Approval of strategy of collection and settlement of problem debts of certain Bank debtors.

Evaluation of execution of its responsibilities by Supervisory Board

Supervisory Board of the Bank executed its responsibilities in full. Members of the Supervisory Board understand their role in corporate governance and can judge the situation in the Bank impartially.

During the reporting period, Supervisory Board of the Bank implemented all necessary measures to prevent the conflict of interests in the Bank. As a result, there were no facts of actual conflicts of interests.

Revision committee

The Bank did not establish revision committee; its functions, in accordance with Ukrainian law regulating banking operations, are vested in internal audit department of the Bank.

Composition of Management Board as at 31.12.2022:

S. Panov - Chair;
A. Kotuzhinsky – first deputy Chair;
T. Poplavska – deputy Chair, corporate business;
T. Gorkun – deputy Chair, digital transformation;
O. Shveda – deputy Chair, treasury;
M. Soboleva – deputy Chair, legal issues;
P. Kryvoshein – deputy Chair, problem and non-core assets;
S. Volkov – deputy Chair;
G. Izbinska – deputy Chair, operations;
P. Kononenko – deputy Chair, security.

Composition of Management Board did not change in 2022.

Powers of the Board cover all issues related to management of current activities of the Bank, except for those outside the competence of other bodies of the Bank or transferred by them to Management Board in accordance with current law or Statute to Management Board, and those that are not within the sole competence of General meeting and Supervisory Board of the Bank.

Powers of the Board include, inter alia:

1) Preparation of draft budget, strategy and business plans of Bank development for approval by Supervisory Board;
2) Implementation of strategy and business plans of Bank development approves by Supervisory Board, compliance with Bank budget, control of compliance of structural departments of the Bank, including separated departments, with the above;
3) Presentation of proposals regarding the need to introduce changes into strategy and policies of risk management to Supervisory Board; control over communication of changes made in strategy and policies of risk management and other internal documents on risk management to respective departments and employees of the Bank;
4) Execution of decisions of Supervisory Board on implementation of risk management system, risk-management policies and procedures, and other actions aimed at efficient risk management in the Bank;
5) Setting rules and procedures of monitoring of Bank operations;
6) Development of organizational structure of the Bank and its presentation for approval by Supervisory Board;
7) Informing Supervisory Board on Bank KPIs, identification of non-compliance with current law in Bank operations, deterioration or threat of deterioration of Bank financial position, other risks faced by the Bank during its operations;
8) Provision of safety of IT systems of the Bank;
9) Presentation of annual financial statements of the Bank for approval by General meeting;
10) Provision of performance of inspections and implementation of conclusions and recommendations of internal and external audits of the Bank, taking decisions based on their results;
11) Reporting on execution of planned performance indicators, strategy and business plan of the Bank to Supervisory Board;
12) Execution of continuous monitoring of efficiency of internal control system in accordance with approved procedures of the Bank;
13) Developments of steps to quickly correct the deficiencies in risk management system, implementation of comments and recommendations based on risk assessment, internal and external audits, regulatory bodies;
14) Provision of preparation and presentation of management reports on risks faced by the Bank, including information on new products or significant changes in Bank operations, to Supervisory Board;
15) Provision of preparation and presentation of proposals on necessary changes in strategy and policies of risk management to Supervisory Board;
16) Control over communication of changes made in strategy and policies of risk management and other internal documents on risk management to respective departments and employees of the Bank;
17) Provision of compliance with Ukrainian legal requirements regarding prevention and counteraction of legalization (money laundering) of criminal proceeds, financing of terrorism and proliferation of weapons of mass destruction;
18) Approval of limits for each type of risk in accordance with list of limits, set by Supervisory Board;
19) Provision of administrative support and control of execution of their functions by CRO, CCO, risk management departments and compliance department (organization of their work processes, preparation of regulatory documents to implement decisions of Supervisory Board);
20) Introduction of limits for decisions of Management Board committees on transactions, taking decisions for which is delegated by Management Board to these committees;
21) Taking decisions on active transactions with related parties within the limits set by current Ukrainian law and Matrix of allocation of competencies, stated in Annex 1 to Regulation on Supervisory Board, approval of list of Bank related parties;
22) Determination of range of matters, treated as commercial secret, confidential information and limited-access information. Setting the rules of their disclosure;
23) Taking decisions within its competence on settlement of doubtful debts, including write-off of debts under active transactions, recognized as bad;

24) Taking decisions on management of Bank human resources: selection of candidates, appointment and discharge of employees, approval of motivation systems (financial and non-financial motivation) within the approved budget, except for employees directly accountable to Supervisory Board;
25) Provision of development and approval of internal regulatory documents and management procedures of the Bank (except for internal documents, review and approval of which is the competence of Supervisory Board or General meeting), namely, Programs of training and continuing education in risk management issues of Bank employees, Rules of investigation of violations in Bank operations, Tress-testing programs;
26) Taking decisions on establishment of committees accountable to Management Board, setting their functions and limits of powers, approval of composition of committees and regulations on committees;
27) Approval of scope of credit risk and allowances and provisions under active transactions and financial liabilities of the Bank, approval on scope of provision for potential losses under court claims of customers, counterparts, third parties and decisions of state bodies that may result from disposal of assets or origination of liabilities;
28) Development and presentation of dispute-settling and court protection of the Bank in case of threat of loss or encumbrance of Bank corporate rights for approval by Supervisory Board;
29) Preparation and organizational support of meetings of Supervisory Board and General meeting;
30) Taking decisions on opening of correspondent accounts in non-resident banks and correspondent accounts of non-resident banks in the Bank;
31) Taking decisions on establishment, reorganization, temporary suspension and recommencement of operations, liquidation of branches and other separated segments of the Bank;
32) Taking decisions related to transfer (alienation) of exclusive intellectual property right, including rights on marks for goods and services (trademarks);
33) Prior coordination of proposals of ALMC on attraction of funds as subordinated debt;
34) Taking decision on signing certain legal documents in accordance with Matrix of allocation of competencies, stated in Annex 1 to Regulation on Supervisory Board;
35) presentation of information, important to banking oversight, to NBU in line with the list of required information, as stated by the Law of Ukraine *On Banks and Banking Activities*;
36) taking decisions on other issues of day-by-day management of the Bank in line with current Ukrainian law, except for issues within sole competence of Supervisory Board and General meeting not delegated to the Board.

Chair of Board organizes activities of the Board, convenes meeting and provides for keeping minutes of the meetings. Rights and powers of the Chair regarding management of current activities of the Bank are set by Ukrainian law, Charter and Regulation on Management Board.

Chair of the Board:

- manages day-to-day work of the Bank based on decisions of General meeting, Supervisory Board and Management Board of the Bank;
- Has a right to act in the name of the Bank without PoA, including representation of Bank interests in dealings with and legal entities and/or individuals, execute any legal acts within his powers in Ukraine and outside of it;
- Has a right to act in the name of the Bank without PoA, including representation of Bank interests in dealings with and legal entities and/or individuals, execute any legal acts within his powers in Ukraine and outside of it based on respective decisions of Supervisory Board, its committees within his competence;
- Manages Bank assets within the limits set by Statute, decisions of Supervisory and Management Bords Matrix of allocation of competencies, stated in Annex 1 to Regulation on Supervisory Board, and Ukrainian law;
- Develops and approves scope of powers of authorized bodies and employees of the Bank regarding bank transactions and execution of contracts;
- Allocated powers (on management of current operation of the Bank and representation of the Bank for third parties) between members of Management Board and Bank employees along their lines of business approving respective acts, issuance of PoAs, etc.;
- Establishes provisional and acting bodies (committees, commissions, work groups) to solve the issues of financial, business and current work of the Bank, except for those establishment of which is within the competence of General meeting, Supervisory and Management Boards, and approves internal regulations (documents) of the Bank, except for those approval of which is within the competence of General meeting, Supervisory and Management Boards;

- Approves internal documents of the Bank, issues orders, instructions, other regulatory documents mandatory for all employees of the Bank, except for those approval of which is within the competence of General meeting, Supervisory and Management Boards;
- Provides for preparation and holding of meetings of the Board of the Bank, approves agenda of these meetings;
- Prepares and signs organizational structure of the Bank to be approved by Supervisory Board;
- Approves manning table of the Bank and its separated segments (branches);
- Hires and dismisses Bank personnel;
- Takes decisions on terns of agreements (contracts), including terms of labour remuneration and financial stimulation with Bank employees, except for heads and personnel of departments accountable to Supervisory Board;
- Implements rights and obligations of the Bank in labour relations sphere (including stimulation of employees and initiates respective disciplinary actions) in accordance with Ukrainian law and Statute of the Bank;
- Has a right to be present of sessions of General meeting, Supervisory Board and its committees;
- Present matters related to Bank operations for review by General meeting, Supervisory Board and its committees;
- Performs, within the limits of his powers, advance review and preparation of draft decisions on matters within the competence of General meeting, Supervisory Board and its committees;
- Enjoys other powers in accordance with Ukrainian law, and internal documents of the Bank.

Chair of the Board issues letters of authorization (including the right of re-authorization) to represent Bank in dealings with third parties, enter into legal acts in the name of the Bank, including the right to sign or terminate the contracts and other documents, related to legal acts.

Members of the Board control business lines in line with allocation of responsibilities, approved by the Chair. Each Board member manages, being personally responsible, for work of Bank departments, directly accountable to particular member in line with organizational structure of the Bank.

Members of the Board, within his scope of powers allocated by the Chair and in line with rules and procedures, set by internal documents, issue orders and instructions mandatory for all employees of the subordinated departments.

In accordance with Regulation on functioning of collegial bodies' system of the Bank, the Board established the following functioning committees:

I (highest) level committees:

- Assets-and-Liabilities management committee (ALMC), taking decisions on active and passive transactions and risks, caused by these transactions as well as decisions on management of limits and ranges of bank products, transactions required to meet the budget of the Bank;
- Individuals' business committee (IBC), taking decisions on efficient management of business with individuals (all segments of customers – natural persons) and related risks, having high level of powers and having a right to take management decisions within its competence. IBC acts as a credit committee in the meaning of Law on banks regarding transactions with individuals.
- Corporate business committee (CBC), a standing committee, taking decisions on efficient management of corporate business with legal entities and private entrepreneurs of corporate and medium business and related risks, having high level of powers and having a right to take management decisions within its competence. CBC acts as a credit committee in the meaning of Law on banks regarding transactions with legal entities.
- Small and microbusiness committee (SMC),l a standing committee, taking decisions on efficient management of corporate business with legal entities and private entrepreneurs of small and microbusiness segment, and related risks, having high level of powers and having a right to take management decisions within its competence. CBC acts as a credit committee in the meaning of Law on banks regarding transactions with legal entities.
- Committee of operating, compliance risks and information safety (COCRIF) – Bank committee for management of internal control system of the Bank, organization and updating of operating processes, management of operating and compliance risks, implementation and functioning of information safety management system (ISMS), management of information safety risks within ISMS of the Bank.
- Non-performing assets committee (NPAC), standing Bank committee taking decisions on management of non-performing assets and foreclosed property. NPAC is authorized to review issues related to management of potential NPAs, including credit decisions on these assets.

- Strategic development and Bank transformation committee (SDBTC), standing committee taking decisions on management of Bank transformation projects, strategic issues of Bank transformation, optimization of processes and digital changes, including, but not exclusively, development of IT systems of the Bank.

II (lower) level committees:

- Small corporate business committee;
- Groups of authorized persons for expert lines/functions.

Until October 2022, the Bank had the following committees:

- Committee of information safety and operational-technological risks, Committee of information safety and IT risks (reorganized into Committee of operating, compliance risks and information safety);
- Corporate business committee (reorganized into Corporate business committee and Small and microbusiness committee).

In 2022, the committees took respective decisions within the range of their powers.

Meetings of the committees are held either in person or remotely.

In total, in 2022, there were (both in person and remotely):

- 237 meetings of Corporate business committee;
- 27 meetings of Committee of information safety and operational-technological risks;
- 2 meetings of Committee of information safety and IT risks;
- 18 meetings of Committee of operating, compliance risks and information safety;
- 41 meetings of Strategic development and Bank transformation committee;
- 195 meetings of Assets-and-Liabilities management committee;
- 80 meetings of Non-performing assets committee;
- 164 meetings of Individuals' business committee;
- 35 meetings of Corporate business committee;
- 13 meetings of Small and microbusiness committee;
- 20 meetings of Small corporate business committee.

Meetings of the Management Board are held either in person or remotely. Format of the meeting is set by the Chair of Management Board.

In total, in 2022, there were Management Board meetings: 17 of them regular and 194 – extraordinary, formalized by 229 protocoled decisions of Management Board.

Agenda of 2022 meeting of Management Board included review of the following major issues of Bank activities:

- Results of periodical reports on Bank operations;
- Reports of internal audit department on audits of structural departments and business processes of the Bank;
- Month risk-related reporting, including compliance risk;
- Monthly review and approval of list of related parties of the Bank;
- Review, discussion, approval and introduction of amendments in internal regulatory documents of the Bank;
- Quarterly report on monitoring of efficiency of internal control system of the Bank, including efficiency of functioning of risk management system;
- Financing/introduction of changes into terms of financing of Bank customers depending on limits of powers;
- Settlement of doubtful debts of Bank customers;
- Terms of lease/sale of property owned by the Bank;
- Introduction of measures to ensure uninterrupted operation of the Bank.

Total of 251 issues were reviewed in the reporting period.

Management Board of the Bank reaches the pre-set goals in full. The Board took all necessary steps to ensure efficient work of the Bank and positive changes in financial and business position in the reporting period.

Board members have a complex of knowledge, professional and managerial experience for proper execution of their duties, taking into account business plan and strategies of the Bank. Board members have adequate professional level and positive professional experience, enabling them to properly execute their responsibilities and take decisions on the issues covering different aspects of Bank operations.

Existence of common knowledge, skills, professional and managerial experience of a scope adequate to understand all aspects of Bank operations, reasonable risk assessment, faced by the Bank, as well as provision of efficient management and control over Bank activities in general, taking into account functions, vested on the Board by current law, Charter and Regulation on Management Board of JSC "Bank Credit Dnepr", resulted in weighted decision, causing positive changes in the business of the Bank.

During the reporting period, KPIs were not set for individual Board members, therefore individual assessment of work of Board members was not performed. Work of the Board was integrally assessed by Supervisory Board through assessment of compliance with planned Bank performance indicators.

Rules of appointment and dismissal of Bank officials

Rules and procedures of appointment and dismissal of Bank officials are set by Statute of the Bank, Regulations of Supervisory Board and Management Board. Respective documents can be accessed at: https://creditdnepr.com.ua/

As stated in the Charter and Regulation on Supervisory Board of the Bank, members of Supervisory Board are elected by General meeting for the term, stated in respective resolution of General meeting, within the range of maximal terms, as stated by Ukrainian law.

Chair of Supervisory Board is elected from members of Supervisory Board by decision of General meeting.

Members of Supervisory Board may be reelected for unlimited number of times.

By decisions of General meeting of shareholders (Sole shareholder) powers of any member of Supervisory Board can be terminated pre-term.

Powers of a member of Supervisory Board can be terminated pre-term:

1) at his/her decision with 2-week advance written note to the Bank;
2) case of impossibility to act as a member of Supervisory Board due to poor health;
3) in case of valid verdict or court decision regarding penalty that makes it impossible for him/her to act as a member of Supervisory Board;
4) in case of death, recognition as incapacitated, limitedly capable, disappeared or dead person;
5) in case of a note to the Bank on replacement of a member, representing a shareholder;
6) in cases when circumstances, in accordance with Ukrainian law, prohibit to work as a member of the Supervisory Board;
7) in case of loss of impeccable business reputation;
8) if an independent member does not comply with requirements to independence, stated in Ukrainian law, Charter and Regulation;
9) if General meeting takes decision on termination of powers od a member of Supervisory Board;
10) in case of election of new members of Supervisory Board by General Meeting;
11) is other cases in compliance with current Ukrainian law.

In cases, stated in p.p. 1-8, powers of a member of Supervisory Board are terminated without decision of General meeting.

In accordance with Charter of the Bank and Regulation on the Board, the Board, comprising the Chair and members of the Board, is elected by Supervisory Board for unlimited period in line with the terms of respective labour contract.

Candidate for Chair is elected by Supervisory Board, while candidates for membership are proposed to Supervisory Board by the Chair of Management Board.

Chair of the Board takes his/her position after written consent of National Bank of Ukraine.

The Board consists of Chair, Deputy(s) Chair, members of the Board.

Powers of Chair and members of the Board may be terminated pre-term by decision of Supervisory Board and in cases, set by Ukrainian law, Charter and contracts. Supervisory Board has a right to dismiss Chair and members of the Board at any time.

Powers of Bank officials

Powers of Bank officials are stated in the Charter of the Bank, Regulations on Supervisory and Management Boards and labour contracts, if executed with Bank officials.

Powers and responsibilities of members of Supervisory Board are set by current Ukrainian law, Charter of the Bank, Regulations on Supervisory Board and civil-law contracts between the Bank and each member.

Members of Supervisory Board have a right to:

1) Take part in meetings of Supervisory Board, its committees and Management Board, if needed;

2) receive full, reliable and timely information on the Bank, necessary for execution of their functions; review Bank documents, get their copies and copies of documents of Bank subsidiaries;

3) make proposal on inclusion of certain issues into agenda of regular/extraordinary meeting of Supervisory Board;

4) demand convocation of extraordinary meeting of Supervisory Board

5) present written comments on decisions of Supervisory Board;

6) receive fair remuneration and compensation for performance of functions of member of Supervisory Board. Amount of remuneration is set by decision of General meeting payable solely under the terms, set by Regulation on remuneration of members of Supervisory Board, civil-law or labour contracts executed with them.

Powers and responsibilities of members of Management Board are set by current Ukrainian law, Charter of the Bank, Regulations on Supervisory Board and labour contracts between the Bank and each member.

Members of Management Board have a right to:

1) receive full, reliable and timely information on the Bank, necessary for execution of their functions;

2) takes decisions on issues of current operations of the Bank independently or together with other Board members within the range of their powers;

3) be members of the Board committees;

4) introduce proposals, discuss and vote regarding agenda of meetings of the Board and its committees;

5) initiate convocation of Board meetings;

6) present written comments on decisions of the Board and its committees;

7) request convocation of extraordinary meeting of Supervisory Board.

There were no facts of violation of internal rules and regulations by members of Supervisory and Management Board, resulting in damage or losses of the Bank or consumers of financial services.

There were no measures of influence taken against members of Supervisory and Management Boards of the Bank taken by state bodies in 2022.

As at December 31, 2022, the Bank had an Organizational structure of the Bank approved by decision of Supervisory Board of the Bank of December 9, 2022. Organizational structure of the Bank is presented in Annex 1 to Corporate governance report.

Corporate governance system of the Bank complies with current Ukrainian law and international practices. Perspective for development and improvement of transparent and efficient model of corporate governance of the Bank includes introduction of new forms of management reports, internal controls and improvement of business processes.

Segregation of powers between managing bodies

	General meeting of shareholders	**Supervisory board**	**Executive body**	**No body**
Selection of major lines of business (strategies)	Y	Y	N	N
Approval of plans of actions (business plans)	N	Y	N	N
Approval or annual financial statements, or balance sheet, or budget	Y	Y	N	N
Election and termination of powers of Chair and members of executive body	N	Y	N	N
Election and termination of powers of Chair and members of Supervisory Board	Y	N	N	N
Election and termination of powers of Chair and members of audit committee	N	N	N	Y
Setting remuneration of Chair and members of executive body	N	Y	N	N

	General meeting of shareholders	Supervisory board	Executive body	No body
Setting remuneration of Chair and members of Supervisory Board	Y	N	N	N
Decisions on financial liability of members of executive board	N	N	N	Y
Decision on additional issue of shares	Y	N	N	N
Decision on redemption, sale and placement of shares	Y	N	N	N
Approval of external auditor	N	Y	N	N
Approval of contracts with existing conflict of interests	Y	Y	N	N

Information on results of functioning of internal audit (control) system during the year

In 2022, department of internal audit performed audits of all lines of Bank business in accordance with Strategic plan for 2022 - 2025 and 2022 Annual plan of audits developed based on risk assessments and approved by respective decisions of Supervisory Board. In line with 2022 annual plan of audits, department of internal audit audited activities of the Bank along the following lines: Process of planning and restoration of operations and preparation of Plan of restoration of Bank operations, Management of uninterrupted business and information systems, Implementation 5-7-9% state program by the Bank, Management of NPAs of legal entities and individuals.

There were integral audits of branches of the Bank performed in 2022, as well as unannounced audits of compliance with cash discipline, servicing of clients, prevention of fraud, physical and information safety.

Separate audit objects, covered by Range of audits, is review of Functioning of risk management system and Functioning of internal control system, included as separate audits in 2022-2025 Strategic plan of audits. Besides, evaluation of efficiency and adequacy of RMS and ICS is performed at each audit during evaluation of control factor of Internal control and risk management, included into total score of the audit and disclosed in each audit report.

Audit of processes includes review of correctness and reliability of bookkeeping and accounting, information, financial and other reporting and statements, prepared by the Bank, completeness and timeliness of filing to National Bank of Ukraine, state bodies and agencies, overseeing Bank operations within the limits of their powers. The results are summarized and used in determination of total score of the audit and disclosed in each audit report.

In 2 quarter of 2022, internal audit department performed General assessment of internal control efficiency. Assessment of internal control system (ICS) was based on criteria of measurement of ICS efficiency, set by Audit policies, COSO principles, keeping in mind NBU requirements. General assessment conclusion was Mostly effective. This means that ICS of the Bank is implemented and operating, and some ICS components are efficient in all significant respects. There is a possibility to improve, but it does not mean that ICS is not efficient or creates threats for achievement of Bank goals.

Based on results of audits by Internal audit department, the recommendation to eliminate identified deficiencies and violations, improvement of risk-management and internal-control systems of the Bank were offered. Results of audits and recommendations were discussed with heads of departments, Chair and members of the Board and presented for the review to Supervisory Board.

Internal audit department continuously monitors implementation of recommendations/steps regarding correction of deficiencies identified during audits. State of implementation of recommendations is presented for deliberation of the Board. Results of monitoring are regularly reported to Supervisory Board of the Bank, including implementation of recommendations on correction of deficiencies identified during audits by the Board and heads of Bank departments. Supervisory Board controls the operations of Internal audit department providing for internal and external evaluation of its actions, efficiency and quality of internal audits. Internal assessment of work of Internal audit department is based on review and approval of report of the Department on its activities during a reporting year. Supervisory Board assessed work of Internal audit department as satisfactory by the result of review of the above 2022 report.

In 2021, internal audit function successfully passed independent external quality evaluation in accordance with International standards of professional internal audit quality and NBU requirements by KPMG-Ukraine LLC. The report on external evaluation states that activities of Internal audit department of the Bank complies, in general, with requirements of international standards, Code of Ethics and NBU Regulation № 311.

External auditor

In 2022, PKF UKRAINE LLC acted as external auditor of the Bank. Total years at audit market of PKF UKRAINE LLC is 15 years. PKF UKRAINE LLC provides audit services to the Bank for 5 (five) years, including the reporting one.

PKF UKRAINE LLC is included in *Audit Entities, Having the Right to Perform Statutory Audits of Financial Statements of Public-Interest Entities* section of Register of auditors and Auditing Entities. Registration number in the Register is 3886.

PKF UKRAINE LLC provided the following services to the Bank during the reporting year in addition to audit services:

- sustainability assessment (assets quality review and acceptability of collateral under credit operations) as at 01.01.2022 in accordance with Decree of NBU Board № 141 of December 22, 2017, *On Approval of the Regulation on the Evaluation of the Resilience of Banks and the Banking System of Ukraine* (with changes and amendments). As a result of approval of Decree of NBU Board *On Introduction of Changes and Amendments to Certain Regulatory Acts of National Bank of Ukraine* № 40 of March 7, 2022, introducing changes and amendments to Decree of NBU Board *On Certain Aspects of Operations of Ukrainian Banks and Banking Groups* № 23 of February 25, 2022, services on sustainability assessment (assets quality review and acceptability of collateral under credit operations) as at January 1, 2022, were not provided;
- Audit of consolidated statements of Banking Group CREDIT DNEPR as at 01.01.2022 (not finalized as at the date of preparation of this report).

External auditor applied the following recommendations of the bodies regulating financial services market:

- art. 127 of Law of Ukraine *On Capital Markets and Organized Commodities Markets*;
- art. 12^2 of Law of Ukraine *On Financial Services and State Regulation of Financial Services Markets*;
- Decision of SCSSE № 555 of 22.07.2021 *On Approval of Requirements to Information on Audit or Review of Financial Statements of Participants of Capital Market and Organized Commodities Market, Overseen by National Commission on Securities and Stock Market*;
- Decree of NBU Board №90 *On Approval of Regulations On Rules of Filing of Auditor's Report Based on Results of Audit of Annual Financial Statements by Banks* of August 2, 2018;
- Decree of NBU Board №373 *On Approval of Regulations on Preparation and Publication of Financial Statements by Ukrainian Banks* of October 24, 2011.

Rotation of auditors of the financial institution during last five years complied with requirements of Ukrainian law.

There were no penalties imposed on the auditor by Chamber of Auditors of Ukraine in reporting year. There were no facts of filing of misstated financial statements, confirmed by auditor's opinion, identified by regulators of financial services markets.

There were no cases of conflict of interests and/or combining functions of internal auditor.

Protection of rights of consumers of financial services by the Bank

Rules and procedures of review of complaints is set by internal Regulation on Review of Appeals of Natural Persons and Legal Entities to JSC "BANK CREDIT DNEPR". The Regulation sets the algorithm of works and areas of responsibility of Bank departments in case of claims and other appeals of customers and third parties, including regulatory bodies, to the Bank and establishment of timely feedback.

In 2022, the Bank received 1018 appeals of citizens, 451 of which were complaints, 23 – thanks, 544 – petitions. A large share of appeals related to work of branches, petitions to suspend debt payments, recalculation of interest under loans, credit holidays due to circumstances, caused by war.

In 2022, the Bank faced 3 lawsuits related to protection of rights of consumers of financial services. As at 31.12.2022, 2 suits are reviewed by first-instance court, while 3 in three cases the court refused to settle the claims.

Facts of alienation of assets above the limits set by the Bank Charter:

Charter of the Bank does not contain separate provisions on the value of assets to be alienated.

Results of appraisal of assets in case of sale or purchase during the year above the limits set by the Bank Charter:

Charter of the Bank does not contain separate limits for the value of assets to be alienated.

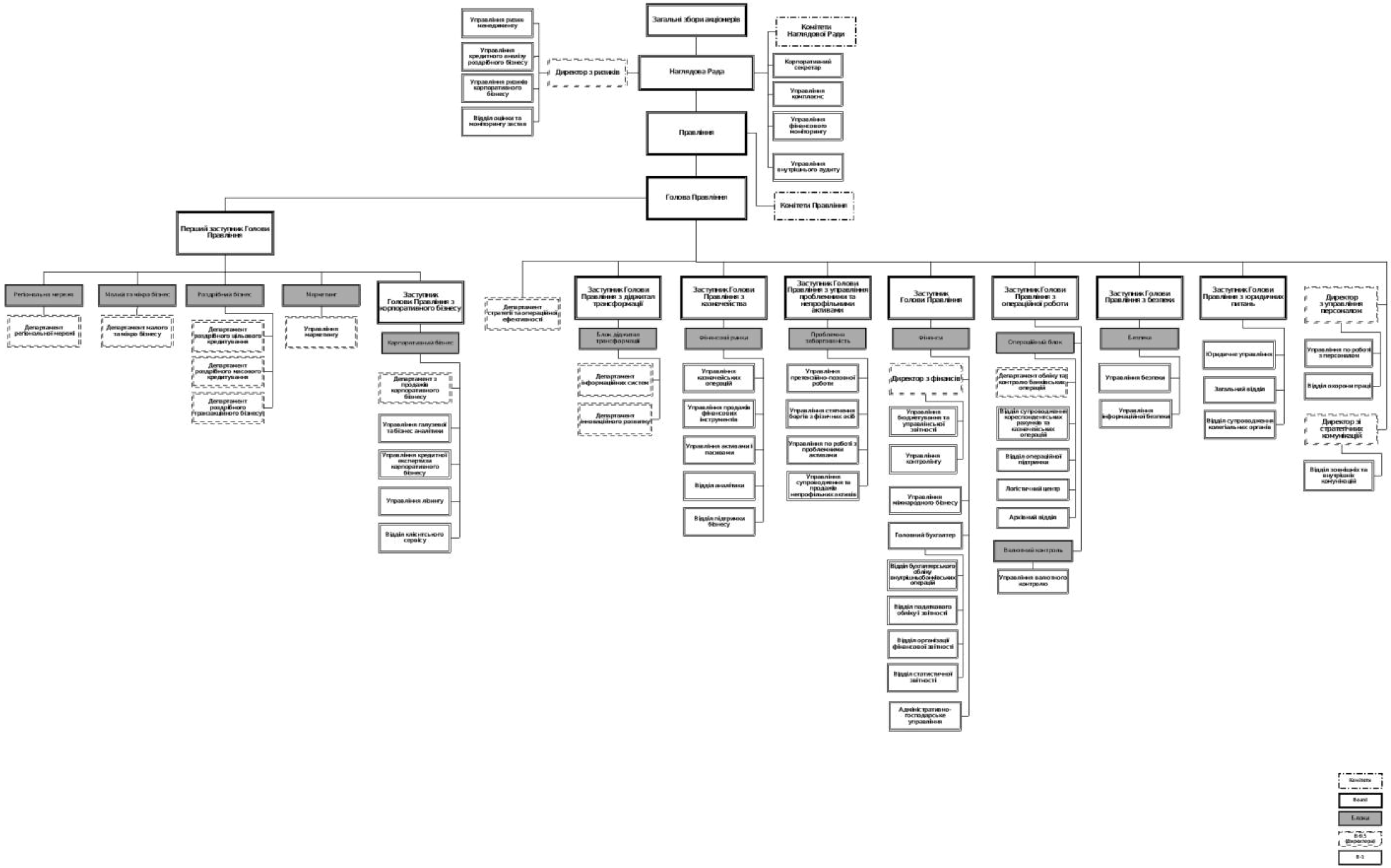
Chairman of the Management Board Sergii Panov

Deputy Chairman of the Management Board Sergiy Volkov

Chief accountant Ruslan Chudakivsky

April 12, 2023

Організаційна структура
АТ «БАНК КРЕДИТ ДНІПРО»
станом на 31.12.2022 року



Annex 1

Approved by Decisions of the Supervisory Board from 09.12.2022. №23

INDEPENDENT AUDITOR'S REPORT

To the:

Shareholder and Supervisory Board of
JOINT STOCK COMPANY "BANK CREDIT DNEPR"

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of JOINT STOCK COMPANY "BANK CREDIT DNEPR" (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss and other comprehensive income, the statement of cash flows and the statement of changes in equity 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 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements to their preparation established by Ukrainian law.

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 to the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (hereinafter referred to as the IESBA Code) and ethical requirements applicable to our audit of financial statements in accordance with the Law of Ukraine *On Audit of Financial Statements and Audit Activities* and 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

We draw attention to Note 2 *Operating Environment* to the financial statements, which indicates that as of February 24, 2022, operations of the Bank and its counterparts are significantly affected by ongoing full-scale military invasion of Ukraine by Russian Federation, while subsequent developments, impact, and timing of when those actions will cease are uncertain.

As stated in Note 6 *Significant Accounting Assumptions and Estimates,* these events or conditions indicate the existence of a material uncertainty which may cast significant doubt about the Banks's ability to continue as a going concern. 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 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 matters described below to be the key audit matters to be communicated in our report.

Key audit matter	**How our audit addressed the key audit matter**
Judgements and estimates of loans and advances to customers	
The recognition and measurement of expected credit losses ('ECL') is highly complex and involves the use of significant judgment and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objectives of IFRS 9 *Financial Instruments*. Accordingly, this matter required significant attention from us during the audit. In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of allowance for impairment. Management exercises judgment in making estimations that require the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. We identified the issue of impairment of loans and advances to customers as key audit matter due to the materiality of the loan balances, the high complexity and subjective nature of the ECL calculation. We refer to Notes 4 and 6, while Notes 7, 8 and 9 for disclosures and detailed information on the methods and models used and the level of the allowance for impairment.	The controls management established to support their ECL calculations were tested during our audit procedures. We also assessed whether the impairment methodology used by the Bank is in line with IFRS 9 requirements. Particularly we assessed the approach of the Bank regarding application of Significant increase in credit risk ('SICR') criteria, definition of default, The Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') and incorporation of forward-looking information in the calculation of ECL. We have focused on assessing the Bank's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes. For significant loans and advances assessed for impairment on an individual basis we applied our professional judgement for selection the sample taking into account different risk criteria. For selected loans and advances we checked the stage classification with assessing factors that affect the credit risk, while for selected impaired loans and advances (Stage 3) we tested the assumptions used in the ECL calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realization of collaterals. For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed such procedures as testing the reliability of key data inputs and related management controls, examination of key management's judgements and assumptions, including the macro-economic scenarios and the associated probability weights, analysing of impairment coverage of credit portfolio and its changes.
Fair value measurement of investment property and fixed assets (real property)	
The valuation of investment property and fixed assets (real property) is important for our audit, due	We have performed procedures for assessing the risks of material misstatement in the Bank's

Key audit matter	How our audit addressed the key audit matter
to the materiality of such property and the subjective nature of the valuations. In line with IAS 40, Bank values its investment property at fair value and in line with IAS 16 Bank values its fixed assets (real property) at fair value. The process of revaluation of the investment property and fixed assets is performed on a regular basis, in which each property is valued by an independent real estate valuation expert. At least annually the Bank performs an external evaluation of such assets. We refer to the financial statements Notes 4 and 6 for information on principal accounting policies. The valuation of the investment property is disclosed in Note 11 and fixed assets (real estate) in Note 14.	accounting estimates based on our testing procedures. We examined whether the fair value of the relevant properties as at December 31, 2022, was consistent with the valuation reports of the independent appraisers. We have performed procedures to determine the quality and objectivity of independent real estate valuation experts, the appropriateness of the parameters used and the correct recording of the revaluation.
Valuation of deferred tax asset	
As at December 31, 2022, the Bank has significant balances of recognised deferred tax asset. As disclosed in Notes 4, 6 and 15, the Bank has recognised deferred tax asset to the extent that it is probable that unused tax losses will be utilised. We have identified the recognition and measurement of deferred tax asset as one of the most significant matters, as the process of assessing the adequacy of planned profit to realize the recognized amount of deferred tax asset and the ability to plan taxes in line with eligible tax losses carry forward term, that is not limited by the current tax legislation. It depends on significant judgments about expectations of future events and is based on assumptions influenced by predictive estimates of future market or economic conditions.	We reviewed management's estimates of how the temporary differences will be realized, including an analysis of the ability to recover deferred tax assets, comparing these estimates with other evidence we obtained during the audit of other areas, including cash flow forecasts, business plans, and minutes of the Bank's collegial bodies meetings and our knowledge of the business. We have reviewed the Bank's financial model used by Management in estimating future taxable income and the amount of deferred tax asset. We also assessed the adequacy of the Bank's disclosures about those assumptions that have the most significant impact on the recognition of deferred tax asset in respect of accumulated tax losses that are carried forward.

Information that is not financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the information included in Issuer report with the Management report for 2022 but does not include the financial statements and our auditor's report thereon.

We obtained Management report prior to the date of this auditor's report. It is expected that Bank's Issuer report, with exception of Management report, will be available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will 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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Bank's Issuer report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Supervisory Board.

Responsibilities of Management and the Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

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

- 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 Banks'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 the Supervisory Board 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 the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence and 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 the Supervisory Board, 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 LEGISLATIVE AND REGULATORY REQUIREMENTS

Report on the requirements of the National commission on securities and stock exchange regarding the audit report on the audit of financial statements

(*This section of the independent auditor's report is included in accordance with Requirements to information related to audit or review of financial statements of participants at capital and organized commodities markets, overseen by National commission on securities and stock exchange, approved by Decision of National commission on securities and stock exchange N 555 of 22.07.2021, hereinafter – Requirements 555).*

Information in line with p. 10 of section I of Requirements 555 is presented in Information on Audit entity performing audit of financial statements section of independent auditor's report.

Additional information in line with Chapter 1 of section II of Requirements 555

1) Full name (in the meaning of Civil Code of Ukraine) of legal entity (applicant or participants at capital and organized commodities markets):

   JOINT STOCK COMPANY "BANK CREDIT DNEPR";

2) In our opinion, the Bank complies with requirements, set forward by Regulation on form and content of ownership structure, approved by Order of Ministry of finances of Ukraine N 163 of March 19, 2021, registered by Ministry of Justice of Ukraine on June 8, 2021, registration number 768/36390, regarding completeness of disclosure on information on ultimate beneficiary owner and structure of ownership;

3) a) the Bank is not a controller/participant of non-banking financial group;

   b) the Bank is Public Interest Entity;

4) The Bank has no parent/subsidiary companies;

5) NCSSE rules and regulations do not imply prudential indicators for the sector where the Bank operates, therefore auditor's opinion on correctness of calculation of respective prudential indicators was not expressed.

Additional information in line with Chapter 8 of section II of Requirements 555

Report on Corporate governance report

We reviewed information presented in Corporate governance report of the Bank as a component of Management report (hereinafter – Corporate governance report).

Management of the Bank is responsible for Corporate governance report and its preparation in accordance with part 3 of Art. 127 of Law of Ukraine *On Capital and Organized Commodities Markets* and Art. 12^2 of Law of Ukraine *On Financial Services and State Regulation of Financial Services Market*.

Our review of Corporate governance report, including information, stated in p.p. 1 – 4 of part three of Art. 127 of Law of Ukraine *On Capital and Organized Commodities Markets*, included examination whether the information, presented in the Report, contradicts to the financial statements, and whether the Corporate governance report is prepared in compliance with current laws and regulations. Our review of Corporate governance report is not an audit, performed in accordance with International standards on auditing, being of much lesser scope. We believe that, as a result of our review, have a basis for our opinion.

Opinion

Corporate governance report is prepared, and the information there is disclosed in accordance with requirements of part 3 of Art. 127 of Law of Ukraine *On Capital and Organized Commodities Markets* and Art. 12^2 of Law of Ukraine *On Financial Services and State Regulation of Financial Services Market*. Information, stated in p.p. 5 – 9 of part 3 of Art. 127 of Law of Ukraine On Capital and Organized

Commodities Markets, namely, description of major characteristics of internal-control and risk-management systems of the Bank; list of persons, who directly or indirectly own a significant share in the Bank; information on any limitations of right to participate and vote at general meeting of the Bank; rules and procedures of appointment and dismissal, and powers of Bank officials, presented in Corporate governance report, does not contradict to information gained during our audit of financial statements and complies with requirements of Law of Ukraine *On Capital and Organized Commodities Markets.*

Information on Auditing entity performing audit of financial statements

Full name of legal entity in accordance with constituent documents:

- PKF UKRAINE LIMITED LIABILITY COMPANY (ID code of legal entity 34619277);

Information on inclusion into Register of auditors and auditing entities:

- The audit firm is registered in *Auditing Entities, Having the Right to Perform Statutory Audits of Financial Statements of Public-Interest Entities* section of Register of auditors and Auditing Entities. Registration number 3886;

Address of the legal entity and factual place of business:

- 4^{th} floor, 52 B.Khmelnytskoho str., Kyiv, 01054, Ukraine;

Webpage/website of the audit entity:

- www.pkf.kiev.ua

Date and number of the audit agreement:

- Agreement № 21 of 28.10.2022

Beginning and closing dates of the audit:

- Date of beginning: 28.10.2022
- Date of closing: 17.04.2023

Additional information in accordance with the Law of Ukraine On Audit of Financial Statements

We have been appointed for statutory audit of the annual financial statements of the Bank by resolution of the Supervisory Board № 27 of 27.10.2022. The total duration of our audit engagements with the Bank is 5 years, including the reporting year.

During our audit of the financial statements, resulting in issuance of this Independent auditor's report, we performed audit procedures regarding assessment of risk of material misstatement of information in the financial statements, being audited, in particular, due to fraud.

Significant risks that required our attention but did not modify our opinion are disclosed in *Key Audit Matters* and *Material uncertainty related to going concern* sections of our report.

We have designed and performed risk-assessment procedures to obtain audit evidence as a proper basis for identification and assessment of risk of material misstatements, whether due to fraud or error, at the level of financial statements of the Bank and assertions therein. We have designed further audit procedures to identify irregularities, including fraud, and get reasonable assurance to express our opinion on the financial statements in general.

As the Bank operates in a strictly controlled environment, our assessment of risk of material misstatements covered control environment, including procedures applied by the Bank to comply with regulatory requirements. Our assessment included review of key structures, policies and standards, understanding and evaluation of supervisory function and internal control in their design and implementation, as well as monitoring of compliance and testing or related controls.

We obtained an understanding of laws and regulations applicable to the Bank and determined the most significant requirements directly related to specific assertions in the financial statements. In particular, these requirements relate to compliance of economic ratios and other laws and regulations.

ISAs limit necessary audit procedures for identification of non-compliance with laws and regulations by enquiries to management, those charged with governance, if necessary, and review of correspondence, if any, with respective licensing bodies and regulators. If non-compliance is not disclosed to us or is not evident from respective correspondence, audit may not identify this non-compliance.

According to the results of our audit, we have not identified significant misstatements that would require material corrections in the financial statements.

Our report is agreed to additional report for Audit committee of Supervisory Board of the Bank.

We did not provide any services to the Bank, prohibited by article 6 of the Law of Ukraine *On Audit of Financial Statements and Audit Activities*.

PKF UKRAINE LLC audit firm and the engagement partner on the audit (key audit partner) of the financial statements of the Bank as at December 31, 2022, are independent from the Bank.

We and other members of PKF International network, as well as other entities controlled by our firm, did not provide any other than statutory audit, services, information on which is not disclosed in management report and/or financial statements.

The purpose of our audit is to increase degree of confidence of intended users to the financial statements of the Bank. It is achieved by expressing our opinion whether the financial statements are prepared in all material aspects in accordance with International Financial Reporting Standards (IFRSs). We conducted our audit in accordance with ISAs and respective ethical requirements; it gives us the possibility to formulate our opinion. Inherent limitations of an audit result in most audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive, so, audit is not an absolute guarantee that the financial statements are free of misstatements, and our audit does not guarantee future sustainability of the Bank efficiency or effectiveness of Bank management.

The engagement partner on the audit (key audit partner) resulting in this independent auditor's report is Sviatoslav V. Biloblovskyi.

Engagement partner on the audit — Sviatoslav BILOBLOVSKYI

(Registration Number in the Register of Auditors and Auditing Entities 100190)

On behalf of PKF UKRAINE LLC

Director — Iryna KASHTANOVA

Kyiv, Ukraine
April 17, 2023