JOINT STOCK COMPANY
OTP BANK

Annual Report
for the Year Ended 31 December 2022

JOINT STOCK COMPANY OTP BANK

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Management report

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1. ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear colleagues,

The year 2022 was both a year of great achievements and difficult challenges for the OTP Group. On the one hand, the new horizons have opened up before us, and we have implemented the new projects. In particular, the merger process between Alpha Bank Albania and OTP Bank Albania has been completed. Since December 1, 2022, two banks will operate under the name OTP Bank Albania, which will become the fifth-largest bank in terms of total assets and the third-largest bank in terms of customer credits in Albania.
In addition, at the end of 2022, the acquisition of Nova KBM in Slovenia was practically completed—one of the most significant acquisitions in the history of OTP Group. With a market share of 20.7% of total assets and more than 1,500 employees as of the end of 2022, Nova KBM d.d. is the second largest bank in the Slovenian banking market. As a universal bank, it also actively works in the retail and corporate segments. OTP Group is already present in Slovenia; SKB Banka joined it in 2019. Now, after completion of the acquisition of Nova KBM, OTP Group will hold approximately 30% of the Slovenian banking market. The integration of the two Slovenian "subsidiaries" is expected to be completed in 2024, and this new bank will become the largest foreign "subsidiary" of OTP Group.
In addition, in December 2022, OTP Group and the Government of Uzbekistan signed an agreement on the privatization of "Ipoteka-Bank,", which is the fifth largest in this country with a market share of 8.5% and a retail customer base of more than 1.6 million people. The acquisition of the bank will take place in two stages: 75% of the shares will be bought soon, and the remaining 25% will be bought after three years.

However, our plans and main tasks are not limited to expanding our presence and growth; we also aim to strengthen sustainability, improve IT processes, and improve financial services. We strive to provide only the most modern services to our customers, so we keep pace with the times and continue digital development. Work on the innovative supercomputer in collaboration with SambaNova Systems continues. We hope that creative work in the field of research and development in the field of artificial intelligence will give the first results soon; therefore, work processes will be accelerated, and OTP Group employees will have more space for service development.

OTP Group is a powerful regional player, as evidenced by the numerous awards we receive in the countries where we operate. So, in 2022, Euromoney introduced the Market Leader nomination for the first time, in which banks compete by presenting the achievements of their corporate business areas. Subsidiary banks of OTP Group became the best corporate banks in six CEE markets (Hungary, Bulgaria, Serbia, Croatia, Montenegro, and Moldova).

But on the other hand, in 2022, we faced the real challenge of war. From the very beginning of the full-scale war in Ukraine, OTP Group provided support to a subsidiary bank in Ukraine: we collected donations from customers and employees, attracted charitable funds for help, and sheltered 160 forced migrants from Ukraine.

We know that Ukraine and Ukrainians are currently going through difficult times. OTP Bank in Ukraine continued its work under the most difficult circumstances, and its employees went to work even in conditions that were sometimes life-threatening. Therefore, for extraordinary courage, loyalty, and dedication, the entire team of OTP Bank in Ukraine was awarded the honorary annual award of OTP Group.

At the time of preparation of this report, the war continues, but we do not give up hope for a peaceful and safe future for Ukraine. We make every effort to support the team of OTP Bank in Ukraine, and we hope for the speedy recovery of all businesses and further revival of Ukraine.

Andras Kuharszki,
Chairman of the Supervisory Board of OTP Bank JSC, Ukraine

2. ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear colleagues,

2022 was a year of unexpected hardship, work in extremely difficult conditions, and a stability test for OTP Bank. We have proven our ability to maintain operational continuity and serve our customers in the most challenging environments. The experience gained during last year's pandemic has prepared the bank for full remote work and customer service, ensuring the reliable operation of mobile banking, the website, chats, payment cards, and payments, even during massive enemy attacks. Also, our IT team managed to ensure uninterrupted operation of the IT infrastructure despite frequent and long-term power outages.
Although approaches to lending were revised in the first months of 2022, OTP Bank financed the seeding campaign and confirmed its position as one of the TOP-10 lender banks under the state program "5-7-9." In the summer, OTP Bank was one of the first to offer private customers credit for purchases at points of sale and introduced an instant, through a mobile application, registration of credit service for purchases for payments paid with credit cards. And already in the fall, it entered the market with updated lending conditions for existing and new customers.

Despite the martial law, OTP Bank in Ukraine continued its digital development, including, in particular, improved mobile banking, optimized credit procedures for corporate customers, and continued the implementation of the latest methods of management and process management, namely the Agile approach in the development, updating, and promotion of key retail products.

In order to protect the interests of its customers as much as possible in conditions of long-term power outages, the bank strengthened more than 80% of its branches with alternative sources of electricity and communication and joined the nationwide Power Banking network, which includes branches of various banks and is capable of serving customers of any bank during blackouts.

Hostilities, temporary occupation, and loss of income by customers led to the need for increased reserves. At the same time, throughout the year, OTP Bank worked with an operating profit and ended the year with a positive financial result that showed an increase in the resource base and significantly increased liquidity and capitalization.

However, financial indicators are not the only thing that the OTP Bank team can be proud of. Among the most important achievements is the creation of the OTP Bank Helps Ukraine fundraising platform. With its help, the bank's volunteers implement humanitarian projects; they collect funds to help Ukrainian children, medical institutions, and forced migrants, attracting benefactors from Ukraine and European countries.
Making plans during a war is a difficult and sometimes impossible task. But I believe that thanks to the financial stability and reliability of the bank and the harmonious and responsible work of our employees, we will continue to offer our customers only the best services and products, innovative financial solutions, and

professional expertise. Each member of our team believes in the victory of Ukraine and works for it. So, we are moving forward, overcoming obstacles, and improving ourselves in order to revive our country as soon as possible.

Volodymyr Mudryi,
Chairman of the Management Board of OTP Bank JSC

3. MACROECONOMIC ENVIRONMENT

The world's leading economies finished 2021 with rapid indicators of recovery and overcoming the negative consequences of the pandemic: China, due to investments in infrastructure projects, reached the pre-pandemic level during 2021, the economies of the USA and Great Britain restored this level by the end of 2021, and the economies of the countries of the European Union and Japan, due to their fundamental imbalances and greater inertia, were on the way to returning to the pre-pandemic level no later than the first half of 2022.

The world's key banks entered 2022 with the realization that a sharp recovery in demand, coupled with a rapid recovery in the labor market, against a background of weak supply, whose pace of recovery has lagged behind the pace of consumption growth, leads to the fact that high producer prices, through the transmission mechanism, create fundamental pressure on consumer inflation and prompt central banks to use monetary policy tools to curb demand, respectively, and to the policy of winding down quantitative easing instruments and increasing the value of financial assets through the key rate instrument.

Russia's unprovoked military aggression on the territory of Ukraine on February 24, 2022, led to significant upheavals in the world economy and international trade against the background of the maximum escalation of geopolitical risks. Ukraine and Russia are leading players in the world markets for key resources, which has led to significant growth and increased volatility in the markets for fossil fuels, ferrous and non-ferrous metals, as well as metallurgical products, products of the chemical industry, primarily mineral fertilizers, and, of course, products of the agro-industrial complex. Although, over time, the situation and prices in the world resource markets have stabilized, continued geopolitical uncertainty and the need to find alternative sources of supply and logistics led to a rapid increase in inflation rates, which, against the background of even more aggressive efforts by the world's key central banks to increase the cost of financial resources, posed significant risks of a global recession.

Stabilization of prices on world resource markets, in combination with favorable climatic conditions and the restoration of the supply of agricultural products from Ukraine to world markets through the "grain corridor", led to a slowdown in inflation growth and even a reversal of the trend to a gradual decline in the transition from 2022 to 2023. High levels of employment in key global economies and the end of China's zero-tolerance policy for COVID lay a solid foundation for consumption and production growth, including construction, especially in China. However, on the other hand, the key central banks of the world foresee the need to continue the "restraint" monetary policy to fight precisely with basic inflation, which will have a more long-term and fundamental effect. Therefore, it is expected that the world economy will pass the stage of recession during the first half of 2023, with a return to economic growth from the second half of 2023, which in the following years will be stimulated by the return of central banks to a "stimulating" monetary policy and, accordingly, a decrease in the cost of financial resources to maintain high rates of consumption.

4. MAIN TRENDS OF UKRAINIAN ECONOMY

Indicators of Ukraine's economic development in 2022 can only be analyzed through the lens of Russia's military operations in Ukraine, which began on February 24, 2022. The temporary occupation of the territory of the country with significant industrial and agricultural potential, the blockade of the main seaports, the destruction of the infrastructure, and the migration of the population within the borders of the country and beyond the borders of the country had an unprecedented impact on economic indicators. According to current estimates, only direct losses are estimated at more than 100 billion US dollars, and the amount of compensation for the damage and the investment plan for the recovery and reconstruction of Ukraine's economic potential reach the range of 600-700 billion US dollars. It should be recognized that the lowest point of decline in the country's GDP was recorded according to the results of the 2nd quarter of 2022.

Starting from the 3rd quarter, the adaptation of economic activity to the conditions of martial law is recorded: the geography of internal and external trade changes, logistics and delivery chains are restored, and the process of deoccupation of the territory with the gradual return of internally displaced persons and migrants is taking place. A significant impetus to the restoration of Ukraine's economic potential was given by the start of the "grain corridor", which unblocked part of Ukraine's sea ports and allowed for a significantly increased export of agricultural products.

Unfortunately, the upward trend of quarterly GDP indicators was interrupted in the 4th quarter of 2022 due to a change in the tactics of Russia's military aggression to carry out massive attacks on the energy infrastructure of Ukraine. Taking into account the occupation of the Zaporizhzhia nuclear power plant and the damage to 70% of the heat and power station's generating capacity, as well as significant damage to the electricity distribution network, the surplus of electricity production during the 4th quarter of 2022 and the 1st quarter of 2023 changed to a significant deficit, which had the greatest impact on the industrial production sector, as quick adaptation due to alternative UPS for this sector is not possible.

As a result, for the year 2022, the decline in GDP was recorded at a level of about 30%. With the transition of the military conflict into a long-term phase of exhausting war, the accumulation of significant destruction of the country's infrastructure, and the impossibility of a quick de-occupation of the territory of Ukraine together with the unblocking of sea ports, expectations regarding economic recovery were postponed from 2023 to later dates, the condition for which remains a significant reduction in the geopolitical risks of military actions on the territory of Ukraine.

A sustainable indicator of economic development in 2023 will be achieved at the expense of consumption and the spheres of trade and services, which most quickly recovered and adapted to the conditions of the war. The agro-industrial complex will need to overcome the obstacles of a decrease in cultivated areas, a decrease in productivity, and an increase in the cost of logistics, so the positive contribution to GDP from this type of economic activity will be insignificant. The sphere of industrial production has quite diverse development vectors: manufacturing and light industry will develop to support consumption; the mining complex has the potential to grow against the background of the recovery of demand for industrial products from China, but the main issue for this complex will be the issue of reliable logistics; the chemical industry, against the background of a decrease in the cost of resources and energy carriers, may return to growth; unfortunately, the metallurgical complex of the country is significantly destroyed and without investments in restoration and reconstruction, it has no opportunities for growth. The limiting factor for the industrial complex will be the fuel and energy complex, namely, the availability of sufficient capacities for energy production and distribution. The lack of stable demand and the provision of only the minimally necessary amounts of state support for the reconstruction of infrastructure will keep the indicators of the construction sector at a rather depressed level.

Inflation

Inflation rates in Ukraine at the beginning of 2022 were influenced by global factors: the rapid recovery of consumption, developed by the delayed demand of periods of "lockdowns" due to COVID, and the limited possibilities of supply and delivery chains to meet this demand. The beginning of Russia's military aggression, which caused the destruction of infrastructure and unprecedented restrictions on the sources of supply of goods and the blockage of delivery chains, naturally led to the growth of the inflation rate at an anticipatory pace.

A characteristic feature of the growth of the inflation rate in the first and second quarters was the destruction of sources of supply and routes of supply of goods to Ukraine. At the same time, the rate of inflation growth correlated with the proximity of the region to the zone of active hostilities or occupation. Seasonally, during this period, the limited supply of food products is another factor in the increase in the level of consumer prices. To counteract this, the government and the National Bank of Ukraine implemented measures to reduce or completely cancel the tax burden and fix the currency exchange rate, respectively.

As the risks of significant imbalances were accumulating in the economy, in the second half of 2022 the priority fiscal and monetary measures were cancelled and the government and the central bank returned to the usual practice of fiscal and monetary policy, of course with adaptation to the requirements of martial law. The stabilization of prices on global resource markets and the establishment of new delivery chains made it possible, starting from the 3rd quarter, to resume part of tax and customs payments and for the National Bank to switch to traditional instruments of monetary policy, leaving the policy of a fixed exchange rate but with a significant correction of the exchange rate in view of the market situation. The de-occupation of part of the territory of Ukraine, the decrease in the cost of resources on international markets, primarily the market for fuel materials, and the seasonal expansion of the supply of raw products from the new year's harvest made it possible to compensate for the further increase in prices due to the restoration of the tax and customs burden and the correction of the price for the currency exchange rate. In the 4th quarter, there was a stabilization of the consumer inflation indicator; moreover, there was even a slight downward trend due to a decrease in the prices of processed products with a short consumption period, as a response to the emergence of a deficit in energy consumption as a result of Russia's energy terror.

Ukraine ended 2022 with a consumer inflation rate of 26.6%. The downward trend is expected to take hold during 2023, driven by a global downward trend in the price of volatile components of the index, namely food and fuel. However, the core inflation indicator will still be at a high level due to the presence of the destruction of Ukraine's infrastructure and significant geopolitical risks, which inflate inflation expectations. The forecast inflation rate as of the end of 2023 is below 20%. The end of the war will not lead to a sharp decline in the inflation rate due to the need to bring administrative prices regulated by the state to the level of market prices in the post-war period; therefore, double-digit levels of consumer price growth are still expected in the medium term.

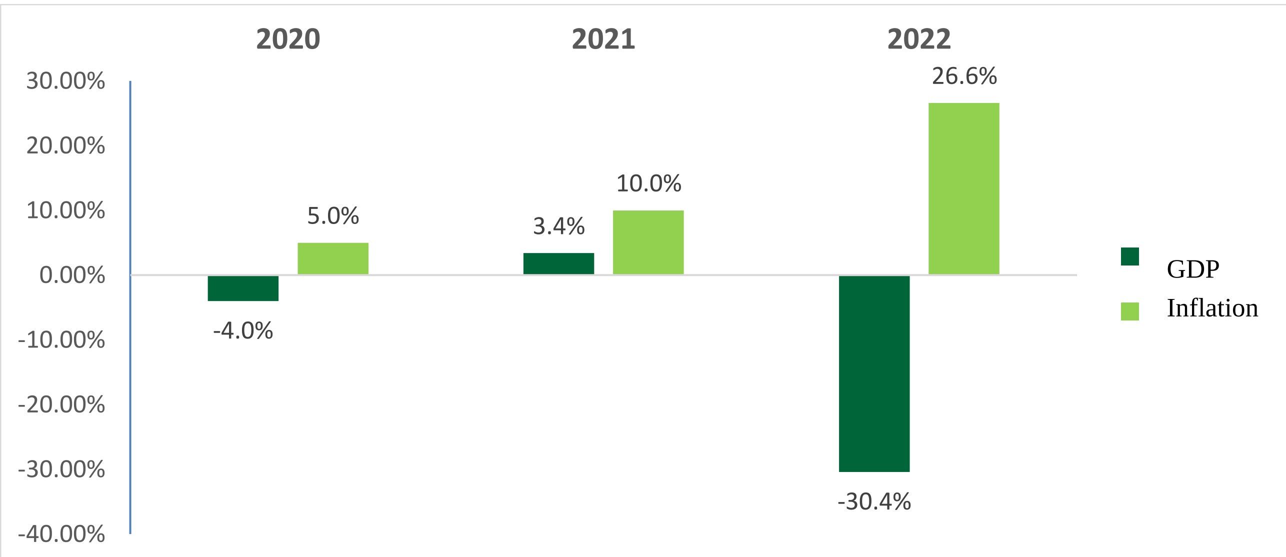
Balance of payments and currency exchange rates

With the start of hostilities on the territory of Ukraine, the National Bank of Ukraine introduced strict restrictions on import operations and fixed the exchange rate. During the first and second quarters of 2022, the NBU followed a fixed exchange rate policy against the background of gradual easing of import operations as the economy adapted to the conditions of operation during martial law and the need to expand the range of goods beyond the list of only critical ones, on the one hand, and increase the volume of exports through alternative ground logistics channels, on the other hand. Since the pace of recovery of imports prevailed over the pace of recovery of exports, the NBU spent a significant part of its gold and foreign exchange reserves during this period.

The maximum amount of expenditure of gold and foreign exchange reserves fell at the end of spring and the beginning of summer, caused by unproductive capital outflows due to the accumulation of imbalances between the fixed exchange rate, on the one hand, and the exchange rates of cash currency and card payments, on the other. Having introduced changes to the regulatory framework with the aim of limiting unproductive capital outflow, with the start of the "grain corridor", which significantly increased the carrying capacity of Ukrainian exports and laid the foundations for the growth of foreign currency receipts in the balance of current operations, the National Bank of Ukraine carried out a 25% correction of the fixed exchange rate, which ensured the further balanced functioning of the foreign exchange market. The NBU continued to intervene in the market, but their volume was significantly reduced, with the exception of the end of 2022, when the trend was reversed for the purchase of alternative sources of uninterrupted power supply and the creation of a stock of fuel and lubricants as a countermeasure to Russia's attacks on the energy structure of Ukraine.

A significant deficit in the trade balance, the excess of the expenses of forced migrants abroad over the receipts of remittances from labor migrants from abroad, which proved to be resistant to the impact of the war, could not be compensated by the record indicators of revenues from the service sector, namely, from the provision of IT services, but the stabilization of the amounts and schedules of receipts of international financial aid in the form of credits and grants made it possible to end 2022 with a current account surplus and the NBU's gold and currency reserves at the level of USD 28.5 billion, which is only USD 0.5 billion less than at the beginning of 2022.

During 2023, the NBU plans to continue the policy of a fixed exchange rate until the market reaches a stable balance of income and expenses, and the expectations of economic agents will be less and less influenced by uncertainty and negative expectations. Also, the current small difference between the fixed rate on the interbank market and the currency exchange rate on the cash market serves as a guideline for achieving a certain equilibrium with respect to the exchange rate. The focus of the National Bank of Ukraine will be on the gradual abolition of restrictions on the free movement of capital during 2023. Although export revenues are expected to decline in 2023 due to a decrease in planted areas and lower yields, on the one hand, and an increase in the volume of energy imports, on the other hand, as well as a negative balance between expenses of forced migrants abroad and income from labor migrants, on the other hand, which will lead to a current account deficit in 2023, inflows of macro-financial assistance from the USA, the EU, and the IMF will compensate for this deficit, which will allow the NBU to maintain gold and foreign exchange reserves at an almost constant level during 2023. The recovery of exports and the reduction of the expenses of migrants abroad are expected to balance the current account after the significant reduction of geopolitical risks and the cessation of the active phase of hostilities.



Note: *GDP in 2022 according to the estimate of the Ministry of Economy of Ukraine.*

5. STATE OF FINANCIAL MARKETS AND BANKING SECTOR

The introduction by the National Bank of Ukraine of restrictions and limits on the conduct of certain operations, the prohibition of the National Securities and Stock Market Commission on the conduct of operations on the capital markets, a fixed exchange rate and restrictions on import operations, unlimited opportunities to receive refinancing from the NBU, introduced with the beginning of Russia's military aggression, effectively counteracted the unproductive outflow of financial resources and saved banks from problems with the potential outflow of customers' funds and allow the banking sector to focus on ensuring continuity of operations and credit risk management by providing loan repayment holidays to almost all segments of bank borrowers.

Paradoxical as it may sound, however, during the first few months of martial law, customer balances in bank accounts remained unchanged, and there was a natural redistribution of funds from customers of the corporate segment to the benefit of customers of the retail segment. Funds in the accounts of retail customers remained at a higher level for an even longer time than before the start of hostilities due to suppressed consumer demand, which focused on the minimum necessary consumer spending. An additional feature of the portfolio of funds of retail customers was a shift in emphasis toward the availability of funds in a period of significant uncertainty.

which led to a significant migration of balances to current and card accounts, positively affecting the cost of funds for bank customers.

The second quarter was a turning point in terms of the adaptation of the banking system to the realities of martial law: the National Bank of Ukraine returned to the usual practice of monetary policy, raising the discount rate to 25%, removing most of the restrictions on operations involving the import of goods and services, adapting restrictions and limits on customer operations in order to limit unproductive capital outflows, and curtailing unlimited opportunities for obtaining refinancing by Ukrainian banks. The banking sector, in turn, ended the period of loan repayment holidays by segmenting the portfolio of credits according to the level of difficulty and continuing to provide customers' credit debt restructuring programs from a portfolio basis to an individual basis.

The National Bank of Ukraine encouraged banks to recognize distressed debt and estimate expected credit losses as soon as possible, leaving banks immune from the use of influence measures by the NBU in case of violations of prudential regulations and limits. At the same time, the NBU resumed the calculation of credit risk in accordance with prudential requirements in order to obtain balanced information about the problematic state of the banks' credit portfolio. The return of the National Bank of Ukraine to traditional mechanisms of monetary policy launched a transmission mechanism for increasing the value of financial resources and led to the competition of banks for customer balances on deposit accounts, which in turn, against the background of the stabilization of the situation at the front, led to the accumulation of balances on deposit accounts and the gradual extension of their term. The correction of the fixed exchange rate by 25% and the restoration of the functioning of the securities market in the third quarter did not have a significant impact on general economic activity, but they had a more decisive impact on the activity of banks.

A characteristic feature of the second half of 2022 was the continuation of emission financing of the budget deficit, but in a smaller volume, and its actual completion at the end of 2022 against the backdrop of a reduction in NBU interventions in the interbank foreign exchange market, which led to smaller volumes of sterilization of the hryvnia money supply and, accordingly, an accumulation of excess liquidity in the banking system. Other factors affecting excess liquidity in the banking system were the regularity and significant amounts of financial assistance from international partners, which were distributed through the State Treasury to the accounts of economic agents but remained in bank accounts due to delayed consumption demand and investment expenditures. It is the excess liquidity of the banking system in combination with a high discount rate on the active side of the balance sheet and the gradual launch of the transmission mechanism regarding the revaluation of the cost of borrowing by banks that allowed the banking system to

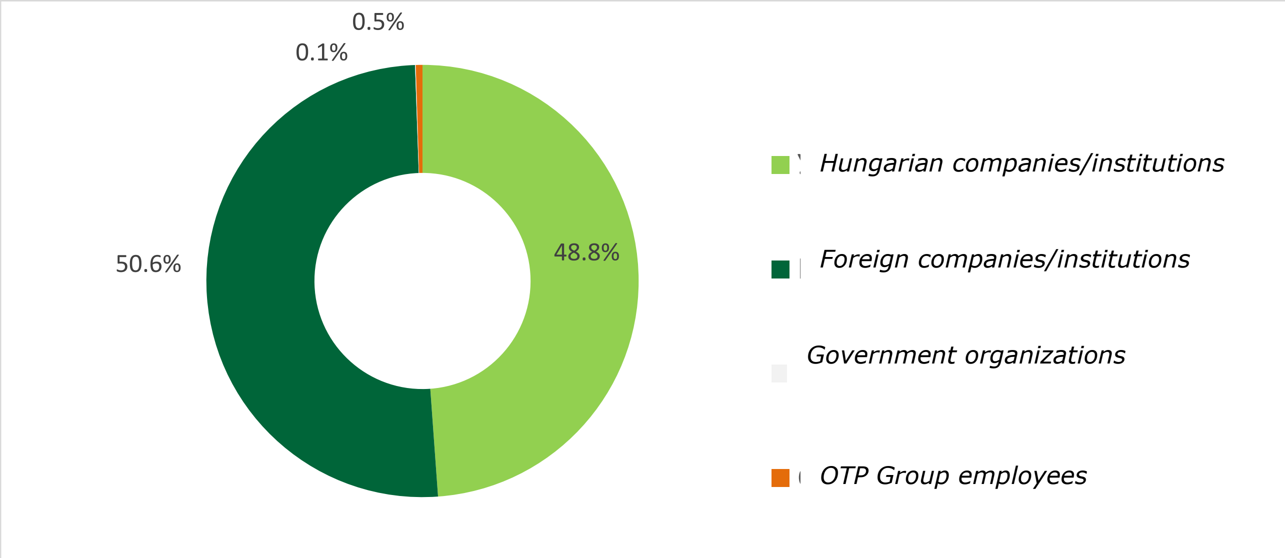
significantly expand the base of operating income and compensate for significant deductions to reserves to cover credit risks.
As a result, Ukrainian banks ended 2022 with a profit of UAH 24.7 billion, while 2/3 of banks were profitable and 1/3 were unprofitable. The main challenges for 2023 for the National Bank of Ukraine and the sector will be: 1) conducting an assessment of the quality of assets and stress testing of banks in order to assess the ability of the banking sector to overcome the negative consequences of a long-term military conflict, 2) increasing the effectiveness of the transmission mechanism of the NBU's monetary policy by sterilizing excess liquidity through increasing mandatory reserve requirements, with the simultaneous encouragement of banks to extend the term of the resource base, simultaneously with the possibility of taking into account investments in domestic state credit bonds in the required reserves for more active involvement of banks in the public debt market and replacing issue financing of the NBU budget.

6. OTP GROUP

OTP Group operates in 11 countries, where more than 40,000 employees serve more than 16 million customers every day.
OTP Group is one of the most reliable financial institutions in the CEE markets, focusing on service and meeting all the financial needs of private and corporate clients through a universal business model.
Founded in 1949 as a state savings bank, today's OTP Group unites large subsidiary structures in the fields of insurance, real estate, factoring, leasing, asset management, investment, and pension funds. Through its subsidiary structures, the Group operates in the markets of 11 countries—Hungary, Ukraine, Albania, Bulgaria, Moldova, Romania, Croatia, Montenegro, Slovenia, and some others—and year after year strengthens its leadership position.
In 2022, Euromoney recognized OTP Group as the best bank for corporate customers in six markets (in Hungary, Bulgaria, Croatia, Serbia, Montenegro, and Moldova) in the new category "Market Leader", which compares, among other business areas, the corporate business lines of other banks.
OTP Group's strategic goal is to become the most successful universal banking group in Central and Southern Europe. In addition to its openness to innovation, the secret to OTP Group's success is that its 70 years of experience and customer base of almost 16 million help it understand and satisfy the needs of its customers.

Ownership structure of the banking group

The shareholders of OTP Group are Hungarian investors (48.83%), foreign companies and private individuals (50.57%), OTP Group employees (0.55%), and government organizations (0.05%).



Today, 100% of Ukrainian OTP Bank is owned by Hungarian OTP Bank Plc, which is the largest financial institution in Hungary and the most dynamic financial group in Eastern and Central Europe.

OTP Bank in Ukraine

OTP Bank is one of the largest Ukrainian banks with foreign capital and a recognized leader in the country's banking sector. It has been operating on the market since 1998 and has a solid reputation as a socially responsible, reliable, and stable financial institution.

OTP Bank offers customers the best service and products, including credit and deposit products, insurance, asset management, leasing and factoring, and corporate and investment banking.

In 2022, OTP Bank continued lending to the economy, servicing the retail and corporate segments. The bank also continues the strategy of investing in the IT sphere and digitizing customer services for private and corporate customers.

In addition to the bank, the group includes OTP factoring, OTP leasing, and OTP capital. The team in Ukraine has 2,810 employees, of whom 2,577 work at OTP Bank.

7. COMPOSITION OF THE SUPERVISORY BOARD

András Kuhárszki - Chairman

Tamás Katona- member

Zoltán Tóthmátyás - member

Péter János Bese - member – the authority was terminated on February 14, 2023

László Pelle - independent member

Sándor Váci - independent member

Maria Ilona Tarnainé Sarudi - independent member

8. COMPOSITION OF THE MANAGEMENT BOARD

Volodymyr Mudryi, chairman of the Management Board

Lilia Lazepko, a member of the Management Board, is responsible for the bank's operational activities and IT

Alla Biniashvili, a member of the Management Board, is responsible for the direction of corporate business

Oleg Klymenko, a member of the Management Board, is responsible for the direction of the retail business

Taras Prots, member of the Management Board, is responsible for risk management

9. KEY STAGES OF DEVELOPMENT AND EVENTS LAST YEAR

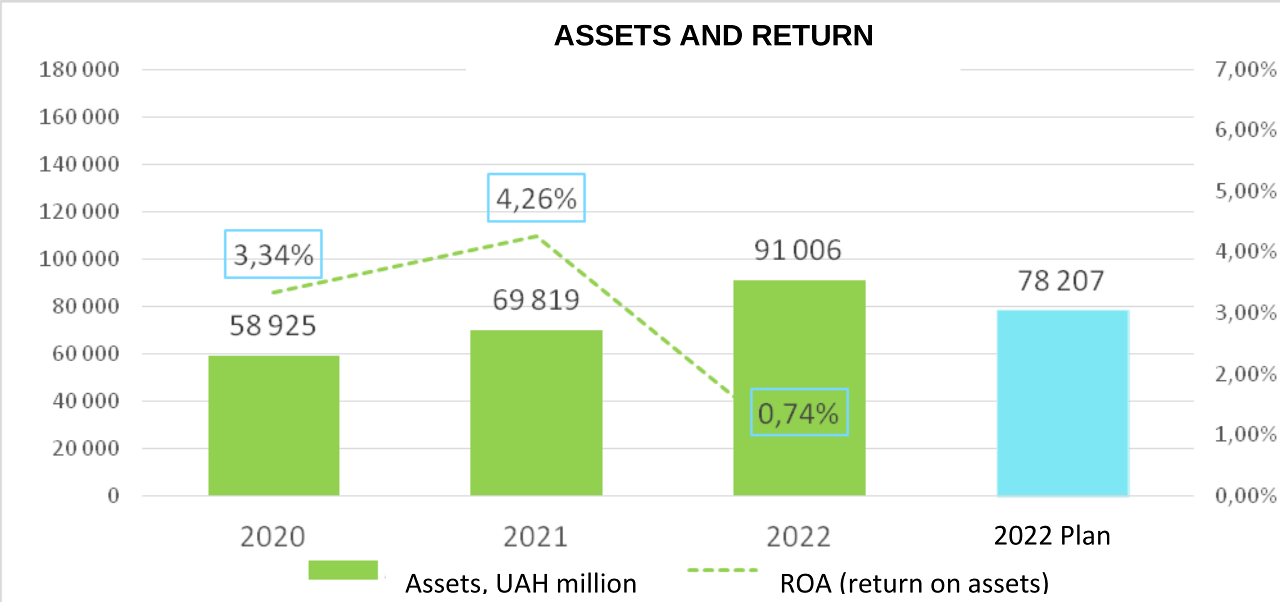
- The assets of OTP Bank exceeded UAH 90 billion.
- The customer funds - about UAH 78 billion.
- The bank's adequacy has almost three times exceeded the minimum regulatory value and almost reached 28%.
- The bank is in the top 10 largest banks in Ukraine for net assets and net profit and took 8 places on these indicators.
- The Bank retained its position in the TOP-10 banks by loan portfolio size under the State Programme "Affordable Loans 5-7-9%"

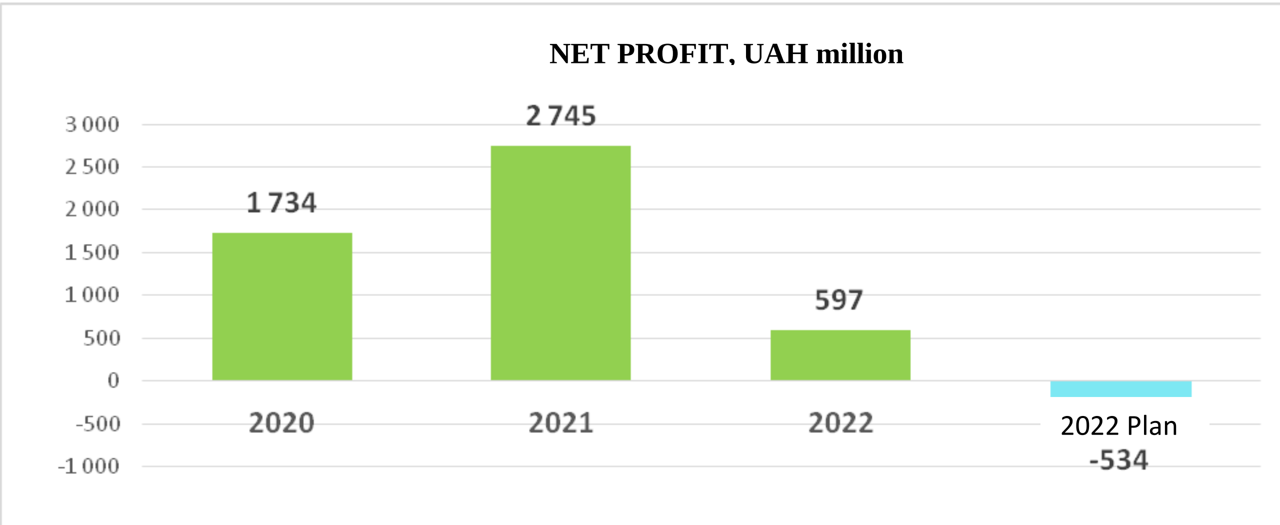
10. RATINGS AND AWARDS

- OTP Bank took second place in the "Stable Bank" rating of the Finawards award from the leading media resources on finance and banks, Minfin and Finance.ua.
- OTP Bank is the winner in the "Premium Banking" category of the "25 leading banks of Ukraine during the war" rating. The annual survey and rating of the banking market is prepared by the Financial Club news agency.
- The entire staff of OTP Bank in Ukraine was awarded the annual OTP Group award for extraordinary courage, loyalty, and dedication.

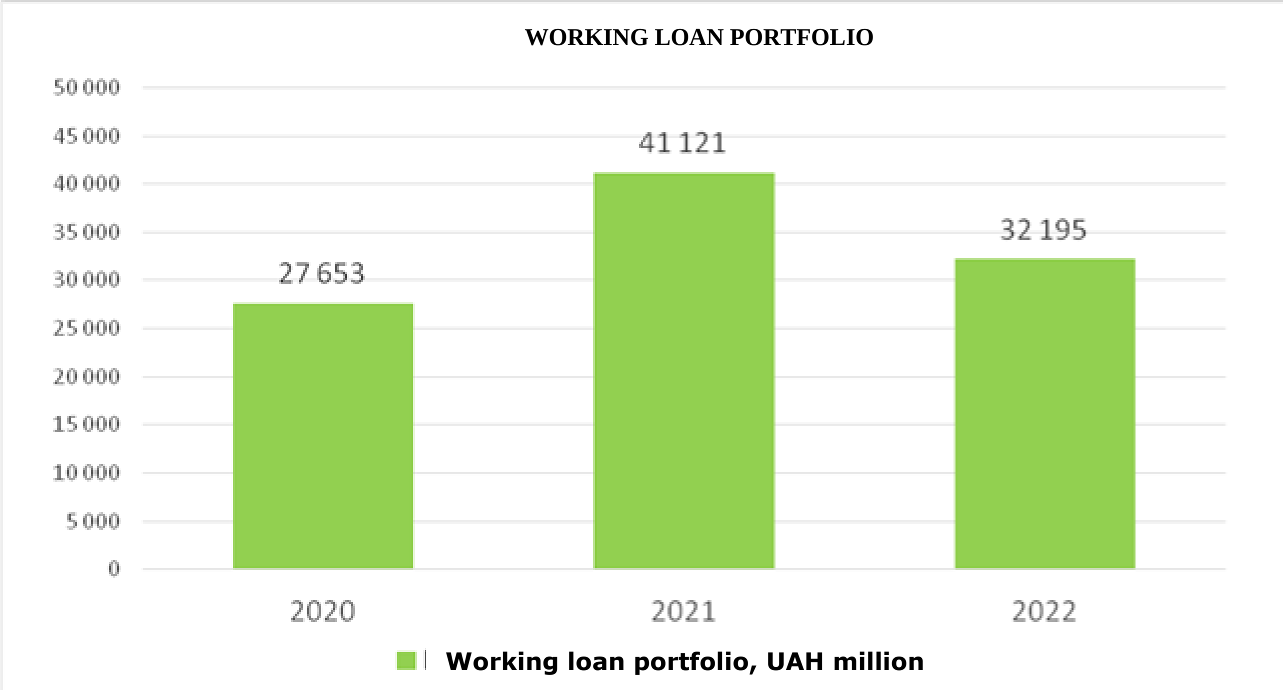
11. GENERAL FINANCIAL RESULTS AND ACHIEVEMENTS

Despite the escalation of hostilities in 2022, the assets of OTP Bank continued to grow significantly and reached a level of UAH 91.0 billion, which is 30.3% more than at the beginning of the year. The return on assets decreased to 0.74% in annual terms. The cost of forming reserves in the amount of UAH 5.7 billion had a significant impact on the decrease in profitability. The quality of the credit portfolio decreased due to the large-scale escalation of the military conflict. The bank has significantly reduced its appetite for risk but has resumed granting new credits to both legal entities and individuals.

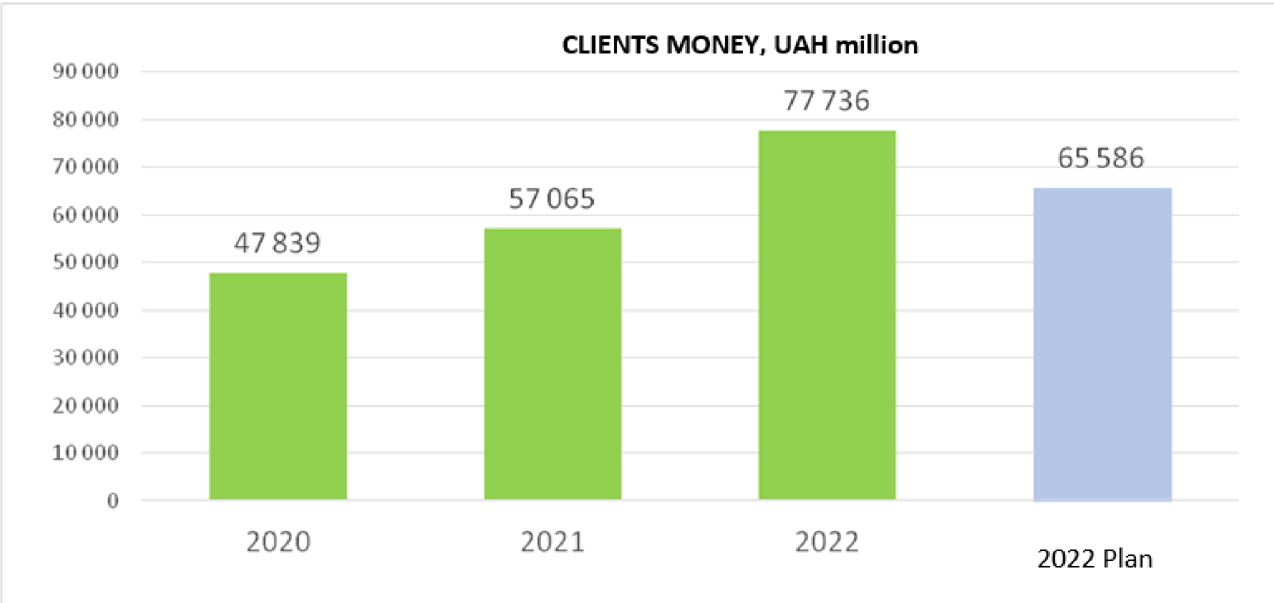




At the end of the year, OTP Bank entered the TOP-10 (8th place) of the largest banks of Ukraine in terms of net assets and took the 8th place in terms of net profit. The market share of net assets at the end of 2022 reached 3.87% (against 3.40% a year earlier). At the same time, both the assets and the financial result exceeded the planned indicators,

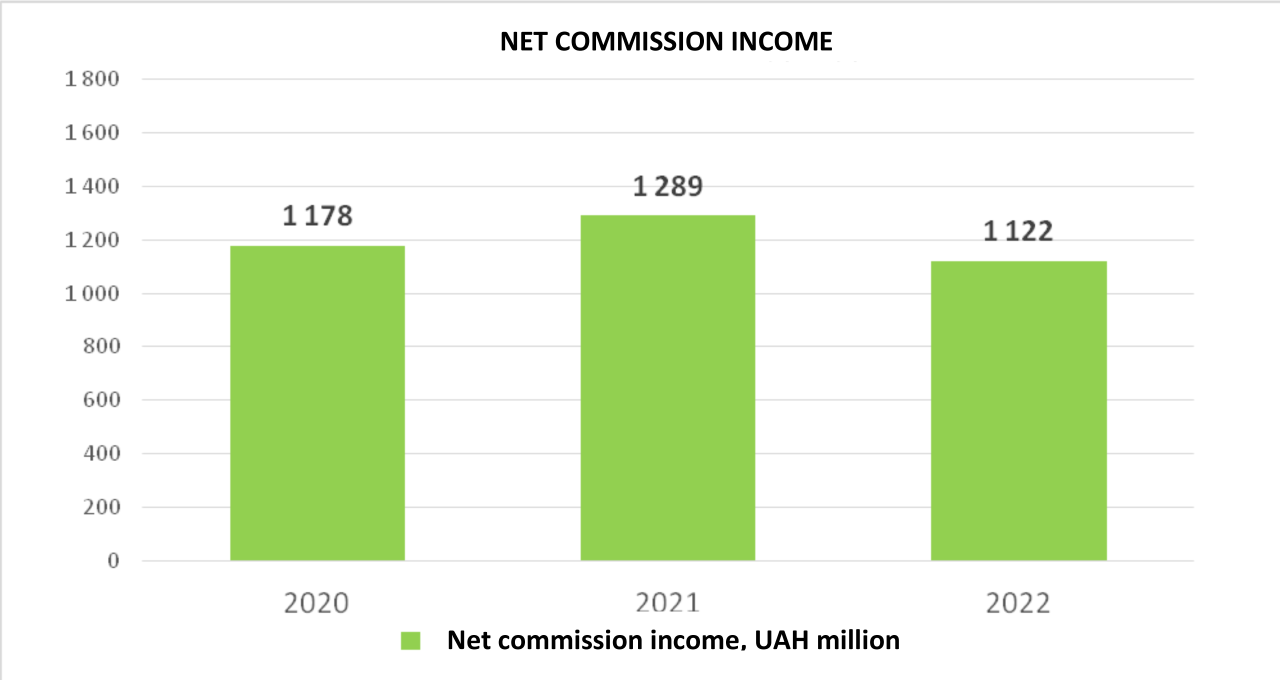


During 2022, the working loan portfolio decreased by 21.7% to UAH 32.2 billion. Such a significant decrease is due to the repayment of loans, a decrease in the volume of new loans, as well as deterioration in the quality of the portfolio.

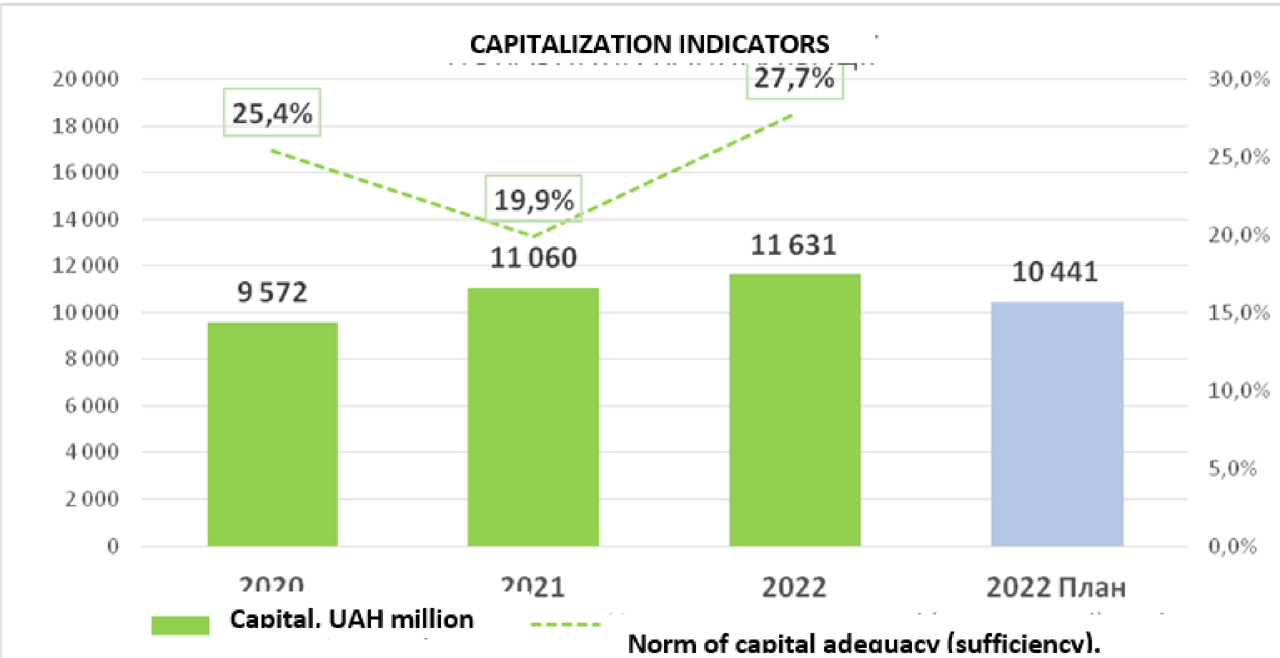


Thanks to the increase in trust in OTP Bank and the attractiveness of deposit products and loyalty programs, in 2022 the funds of legal entities and individuals increased by 36.2% and reached a record level of UAH 77.7 billion.

In 2022, the bank focused on supporting customers who got into a difficult situation as a result of the escalation of the military conflict, namely, carrying out loan restructurings on terms convenient for customers. Another focal point was to ensure uninterrupted operations even in conditions of limited power supply. The bank's strategic goal remains the constant development and improvement of the customer experience of using its products and services.



A decrease in the business activity of customers as a result of military aggression and the introduced restrictions on the foreign exchange market negatively affected the bank's commission income in 2022.



In 2022, the bank's capital continued to grow as a result of the capitalization of profits. Accumulated capital allows the bank to be ready for any stressful situations. Dividends were not paid out in 2022 due to the imposed restrictions. The capital adequacy standard remains at a very high level and significantly exceeds the standard value of 10%.

12. RISK MANAGEMENT SYSTEM

Risk management at OTP Bank

Risk management, which is based on the best international practices and the experience of successful activity in Ukraine, is a mandatory element of the bank's development strategy and a guarantee of development stability. The primary goal of risk management in the bank is defined as a balanced assessment and acceptance of risk that allows for the achievement of the planned profit while ensuring a sufficient level of capital in the medium and long term, taking into account changes in business cycles and the onset of possible adverse market conditions. The bank develops the Risk Appetite Declaration in order to determine the risks that the bank accepts and those that the bank avoids, as well as the aggregate amount of risk appetite and the amount of risk appetite for each of the risks.

The main advantage of applying the risk appetite mechanism is that risks are identified and quantitatively defined in a structured manner, which links them to the bank's business goals and strategy. A system of limits is used to distribute risk appetite between business units, products, and subtypes of risks and further control the amount of risks. Control of the amount of risk in relation to the established risk appetite and risk limits is carried out on a regular basis by determining the risk profile in an aggregated form and in the section of all types of risk.

The risk management strategy defines the principles of managing all significant types of risk identified by the bank, namely: credit risk, including country risk and environmental and social risks, sovereign risk, and counterparty risk; liquidity risk; market risks in the banking and trading portfolio, including interest rate risk in the banking portfolio; operational risk, including legal risk, risk of information and communication technologies, information security, risk of inappropriate behavior, model risk, and outsourcing risk; and strategic and reputational risks. Annually, the bank updates policies and regulations on the management of each type of risk, which set limits and normative values to avoid excessive volatility and concentration of risks that are outside the optimal ratio of risk and profitability, as well as procedures on the management of each type of risk.

The bank has created and operates a comprehensive risk management system that provides constant analysis, management, and control of the risks to which the bank is exposed in its operational activities and enables it to make balanced decisions regarding the size of its risk appetite, its compliance with market conditions, and its business strategy. For risk management, the bank has created a permanent unit for risk management that is subordinate to and accountable to the Supervisory Board of the bank. The key function in the organizational structure of risk management belongs to the Supervisory Board, which defines and approves the risk management strategy, determines the requirements for the operation of the internal control system in the bank, develops policies and procedures for managing all types of risk, oversees the bank's procedures in the event of a crisis or event that requires the restoration of activities, as well as the organizational structure of risk management, ensures the sufficiency of resources for risk management, and carries out control by receiving regular information on the bank's risk profile.

By decision of the Supervisory Board, the Risk Management Committee of the Supervisory Board was established, which performs such functions as monitoring compliance by the bank with the established overall risk-appetite level and the risk-appetite level for each type of risk; monitoring the implementation of risk management strategy and policy; control over the state of implementation of measures for the prompt elimination of deficiencies in the functioning of the risk management system; control over the fact that the pricing/setting of tariffs for banking products takes into account the bank's business model and risk management strategy and other functions delegated to it by the bank's Supervisory Board.

The Board of the bank, as the highest executive body of the bank, is called to ensure the implementation of the Supervisory Board's decisions regarding the risk management system and the implementation of the bank's business strategy and plans in compliance with the requirements and limits of the bank's risk appetite.

According to the decision of the Supervisory Board, for the management of credit risk and liquidity risk, interest rate risk in the banking book, and market risks, the following credit committees and assets and

liabilities management committees were established in the bank, the activities of which are determined by relevant procedures and regulations. Among the key committees created by the bank's board for the implementation of the risk management system, it is worth noting the Committee for Work with Distressed Debts, the Committee for Risk Management of Corporate Segment Customers, the Credit Committee for the Retail Business and Reserve Committees, as well as the Committee for Operational Risk Management. Regular verification and assessment of the effectiveness of the bank's risk management system is carried out by the bank's internal audit unit.
A mandatory element of comprehensive risk management in the bank and the management of each type of risk is stress testing, which is regularly conducted by the bank's risk management unit to determine the bank's readiness and the adequacy of its capital and liquid financial assets to conduct operational activities without violating the standards established by the NBU in the event of a sudden adverse macroeconomic situation.
Assuring the availability of the bank for customers, regulatory authorities, and shareholders in the event of extraordinary events is an integral element of the bank's risk management system.
In order to properly respond to extraordinary events and overcome their consequences, the bank has developed and implemented appropriate plans to ensure continuity and recovery of operations, including a plan for financing in crisis situations. These plans are constantly updated and subject to comprehensive testing.
The bank's risk management system is an integral part of the risk management system of the international banking group OTP Group, which provides opportunities for the exchange of experience and best global practices as well as the constant development and improvement of the bank's risk management system. In addition, the parent bank's risk management units perform the function of independent control and confirmation of the quality of statistical risk assessment models, rules, and procedures for risk assessment and management.

Credit risk management

Credit risk is the probability of losses, additional losses, or failure to receive planned income as a result of the debtor's or counterparty's failure to fulfill the obligations assumed in accordance with the terms of the contract.
Credit risk is the most significant risk for the bank's capital. The bank accepts this type of risk when lending, so the key is the management process itself, which consists of successive stages: identification and determination, assessment and measurement of risk, direct acceptance of risk and its minimization, and finally monitoring and control of the risk profile and trends in its development.
The risk management strategy, credit policy, and credit risk management policies, including monitoring, collateral work, and distressed debt work, define credit risk, creditworthiness, and solvency criteria for individual debt and establish standards and limits for credit risk management at the portfolio level. Detailed requirements for the credit agreement are set out in the product standards, which are updated on a regular basis, but at least once a year.
The assessment and measurement of credit risk are based on rating models for counterparties that prepare and provide financial statements and scoring models for other counterparties that allow assigning counterparties to classes according to the probability of credit risk in each of these classes. Credit risk assessment models will make it possible to make balanced decisions about the amount of expected losses and the required ratio of income to risk to avoid those classes of expected credit risks for which the income is not adequate or the amount of risk is in a too wide range beyond the control of the bank.
Each of the credit risk classes of counterparties corresponds to certain approaches regarding the maximum allowed amount of debt, methods of minimizing expected losses, including due to requirements for securing debt, and calculating the amount of expected credit losses. All models undergo mandatory documentation, back-testing, and validation by the relevant units of OTP Bank in Hungary. When analyzing a counterparty, it

is mandatory to define a group of related counterparties based on signs of control, the structure of ownership and management, and/or significant economic interdependencies.
Acceptance of risk is accompanied by a system of competencies and powers regarding credit risk that, depending on the amount of debt under the credit agreement, consists of collegial bodies and individual powers. The highest collegiate body of the bank that manages credit risk is the Credit Committee, created in accordance with the decision of the Supervisory Board of the bank. The credit committee is empowered to delegate part of its credit risk decision-making authority to lower-level credit committees and individual officers responsible for risk acceptance. The inviolable principles of decision-making are the mandatory presence of representatives of the risk management unit and their right of veto if the decision leads to a violation of the bank's risk appetite or risk limits. When making a decision by individual officials with credit powers, it is necessary to observe the principle of "four eyes" and unanimous approval. Standard products for retail customers with minimal amounts of debt have an automatic decision-making system that is configured, supported, and monitored by representatives of the risk management department. When accepting a risk, it is mandatory to identify insiders, persons related to the bank, check the conditions of the decision regarding compliance with product standards and market conditions, and refrain from voting by individuals, holders of credit powers, in the event of a conflict of interests.
Minimization of credit risk at the level of each individual counterparty involves compliance with the established policies, procedures, and standards for the maximum size of the credit obligation or debt burden, the repayment terms, and the level of collateral coverage. Credit risk management at the level of the credit portfolio involves diversification of risk, restrictions on the segments of the portfolio most prone to excessive risks, and is carried out using a system of limits, established by the bank's credit policy, regarding the maximum permissible concentration of debt at the level of the country, currency, sector of the economy, a certain product, and a group of related counterparties.
The bank pays special attention to the process of continuous monitoring and early identification of distressed and potentially distressed debt. On a regular basis, the counterparty's financial condition is assessed and its behavior is analyzed according to behavioral models; the status of debt service is determined; and information is collected from external sources regarding changes in the composition of the counterparty, violations of the bankruptcy procedure, significant legal proceedings of a material nature, the status of debt service according to the data of the credit history bureau and the Credit Register, tax arrears and/or other mandatory payments, and public information that has a negative impact on the reputation of the counterparty is collected on a regular basis regarding the following: the counterparty The early response system consists of several stages that determine the probability of the occurrence of distressed debt and, accordingly, determine the measures, including those of a preventive nature, that must be applied to prevent the occurrence of distressed debt or reduce expected losses from distressed debt. The system for monitoring and early identification of distressed and potentially distressed debt is integrated into the system for estimating expected losses from the impairment of financial assets in accordance with International Financial Reporting Standards. The process of monitoring and assessing reserves to cover credit risk is under the control of the Committee for Risk Management of Customers of the Corporate Segment, the Credit Committee of the Retail Business, and the Reserve Committee, respectively.
Work on distressed debt settlement is carried out by units dealing with distressed debt, which are independent of the business units and risk management units that made decisions when issuing credit debt. By analogy with the hierarchy of the Credit Committee, the highest-ranking collegial body is the Committee for Work with Distressed Debts, created by the decision of the bank's Board, with a subordinate system of lower-level committees and/or officials with credit powers.
In working with the mass segment of retail customers, standard products and debt settlement procedures prevail, depending on the product and the period of default; at the same time, scenario analysis with scenario selection is typical for customers in the corporate segment, which will lead to the maximum repayment of the debt, taking into account the state of the relationship with the counterparty, the value and state of the security, the state of claim-lawsuit work, and the value of money over time.

The year 2022 began with the military aggression of the Russian Federation against Ukraine. Against the background of these dramatic events, the bank underwent a certain transformation in terms of risk management during 2022. By the end of the 1st quarter, it was possible to stabilize operational activity in the conditions of military operations and avoid the realization of liquidity risk. Regarding credit risk, a loan repayment holidays was introduced to avoid the uncontrolled accumulation of distressed debt, modeling of expected credit losses was made, and a "buffer" of reserves for credit risks was formed. During the 2nd and 3rd quarters, the portfolio with inherent credit risk was segmented into the appropriate stages according to IFRS, and as a result, restructuring was carried out for identified borrowers where it made economic sense. In the 4th quarter, the focus was shifted in 2 diametrically opposite directions: on the one hand, the transfer of part of the credit debt to those borrowers who have best adapted their business models to the "new" reality, as well as the negative consequences of energy terror, from the zone of potentially distressed debt to the zone of non-distressed debt; on the other hand, a significant increase in the level of coverage by credit risk reserves for that part of the credit debt that is in the zone of active hostilities and/or temporary occupation

In 2022, the bank's assets increased by 30,3%, or by UAH 21 billion, to UAH 91 billion. At the same time, there was a significant change in the structure of assets subject to credit risk in favor of debt of the National Bank of Ukraine, debt not subject to credit risk, however, and debt with a very high yield due to the introduction of a "tough" monetary policy with a high level of the key interest rate, which, in turn, ensured the maintenance of a high yield on the bank's assets. During the year, the amount of funds placed in other banks and investments in securities more than doubled and amounted to UAH 54.7 billion, in hryvnia equivalent, or 58.4% of assets subject to credit risk, while the structure of this portfolio has changed slightly: debt in foreign currency increased to 42 percent, which is inherent in the country's risk since this debt is located outside of Ukraine as a result of a significant accumulation of balances of funds in the accounts of bank customers in foreign currency, who perceive the bank as a "quiet haven" in the period of military operations. On the contrary, the gradual repayment of securities by the Ministry of Finance of Ukraine led to a decrease in the portfolio of investments in securities, which is inherent in sovereign risk. The credit portfolio of legal entities and individuals decreased by 11.2%, or UAH 4.9 billion, in hryvnia equivalent, from UAH 43.9 billion to UAH 39.0 billion, both in hryvnia equivalent. Factors contributing to his change in the portfolio development trend were:

On the one hand, the introduction of measures to restore operations in accordance with the activation of the Bank's Operation Restoration Plan with the start of military operations, which imposed restrictions on the active growth of the portfolio size in order to preserve the capital adequacy (sufficiency) indicator, which, in turn, was directed to cover significant deductions to reserves for credit risks, and, on the other hand, a significant expansion of the monetary base by financing the budget deficit by the National Bank of Ukraine, the rate of sterilization of which decreased significantly during the second half of 2022 due to a decrease in the size of the interventions of the National Bank of Ukraine on the foreign exchange market of Ukraine.

During the year, the share of the portfolio of corporate business credits exceeded 80% of the bank's credit portfolio; however, this portfolio structure was achieved by the effect of the revaluation of the hryvnia equivalent of the debt of corporate customers in foreign currency.

The credit portfolio of the corporate business is sufficiently diversified with respect to the risk concentration of one counterparty or a group of related counterparties. The debt of the 20 largest groups of related counterparties, namely bank borrowers, is 39% as of the end of 2022, having increased during the year by 8 percentage points since large borrowers own most of the debt in foreign currency, the hryvnia equivalent of which has increased significantly as a result of the devaluation of the hryvnia during 2022. The indicator of "large credits", the indebtedness of a group of related counterparties exceeding 10% of the bank's regulatory capital, the credit risk standard of the NBU H8 as of the end of the reporting period, decreased to 13.6%, with a maximum normative value of no more than 800%. In fact, only one debt exceeded 10% of the bank's regulatory capital.

Considering the sectoral structure of the portfolio of corporate credits, the share of credits granted to trade enterprises remained stable at a level of about 36%. Redistribution took place in the spheres of production, whose share increased to more than 27%, and agriculture, whose share increased to almost 17%. In contrast to the sphere of trade, which quickly recovered from the shock of the first months of the war and gradually adapted to the "new" conditions of economic activity under martial law, the adaptation of production and agriculture was significantly limited by the blockade of sea ports, the significant destruction of production capacities, and the breakdown and increase in the cost of logistics chains, which led to a significantly higher share of restructured debt in these areas of activity and, as a result, slower rates of portfolio reduction in these segments. The increase in the share of production and agriculture was compensated by the decrease in the share of debt in financial and insurance activities and other minor sectors of the economy.

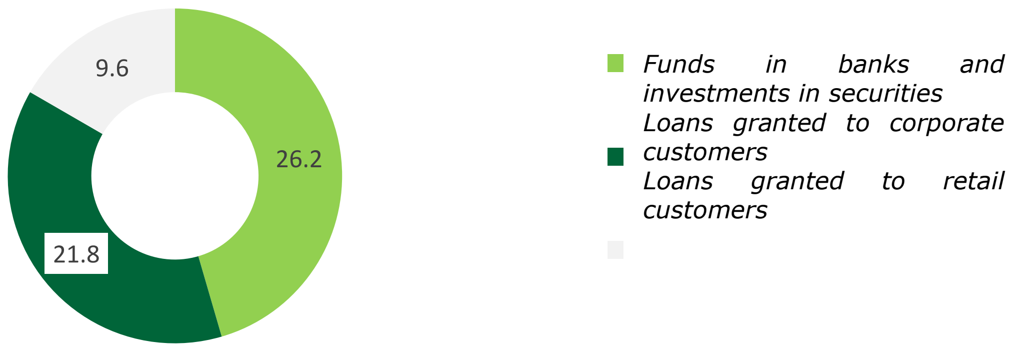
During the year, there were no changes in the share of foreign currency debt, which is about 40% of the credit portfolio of corporate businesses. The bank controls and limits the amount of debt in foreign currency for borrowers who do not have enough foreign currency revenue to service the debt in foreign currency.

The credit quality of the loan portfolio granted to corporate customers significantly deteriorated as a result of military operations during 2022; the share of stage 3 increased to 13% of the portfolio; however, it is sufficiently covered by deductions to reserves for credit risks, which does not create a significant additional burden on the bank's regulatory capital in the medium term. The share of stage 2, in accordance with International Financial Reporting Standards (IFRS), i.e., credits with signs of deteriorating creditworthiness or signs of potentially distressed debt, according to the early response and monitoring system for 2022, increased to 38%; about 60% of this portfolio is restructured debt, the expected credit losses of which are limited to 20%.

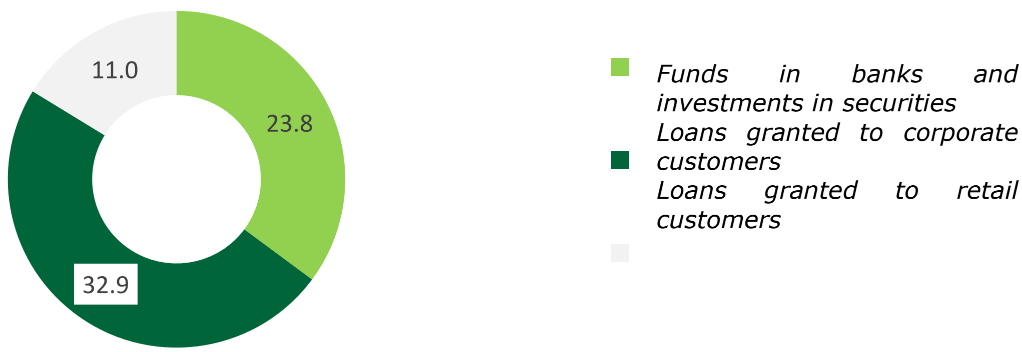
The portfolio of consumer credits in the retail business decreased during the year by 31.8%, from UAH 11.0 billion to UAH 7.5 billion. With the beginning of hostilities on the territory of Ukraine, the bank introduced a loan repayment holidays, during which the credit portfolio was segmented and the most vulnerable segments of the portfolio were offered short-term restructuring programs at the portfolio level as well as individual restructuring. During the period of mass restructuring programs, significant restrictions on the issuance of new credits were introduced, which were gradually abolished with the stabilization of the situation on the front lines and in the general economic environment. As of the end of the year, the bank continued to provide individual restructurings, the volume of which is insignificant, and resume lending programs for consumer credit products; however, the volume of new issues did not exceed 30% of the volume of repayments of the existing credit portfolio, which naturally led to a reduction in the size of the portfolio of consumer credits held by retail businesses. At the same time, the quality of the new portfolio was at a very high level: the auto credit portfolio remains the least sensitive to the negative consequences of the pandemic.

The credit quality of the portfolio of credits extended to retail customers has also significantly deteriorated due to military actions during 2022. The portfolio is almost evenly distributed between stages under IFRS, with each stage accounting for about a third of the portfolio. As of the end of 2022, the total level of coverage by reserves for credit risks of the portfolio of credits granted to retail customers is more than 40%, which, as in the case of the portfolio of corporate customers, does not create a significant additional burden on the bank's regulatory capital in the medium term. The level of provisioning for stage 3 credit risks is approaching 90%, while the indicator for stage 2 is about 35%; both indicators are in line with general market trends.

CREDIT AND INVESTMENT PORTFOLIO, 2020, UAH, billion



CREDIT AND INVESTMENT PORTFOLIO, 2021, UAH, billion



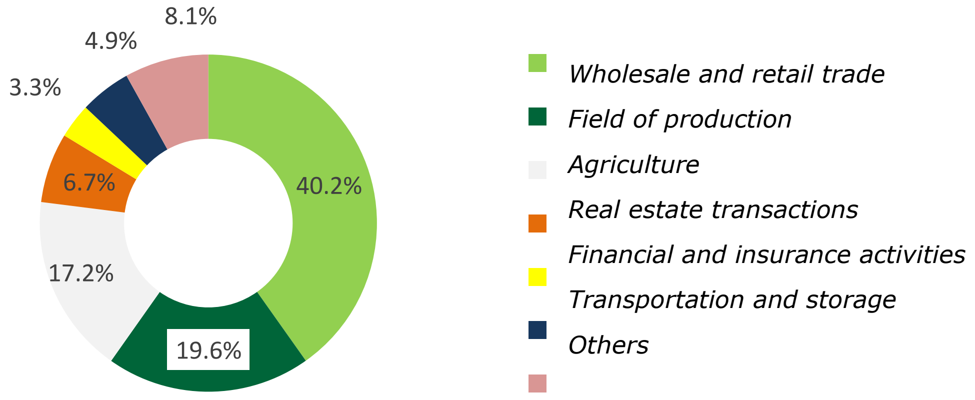
CREDIT AND INVESTMENT PORTFOLIO, 2022, UAH, billion

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %, 2020

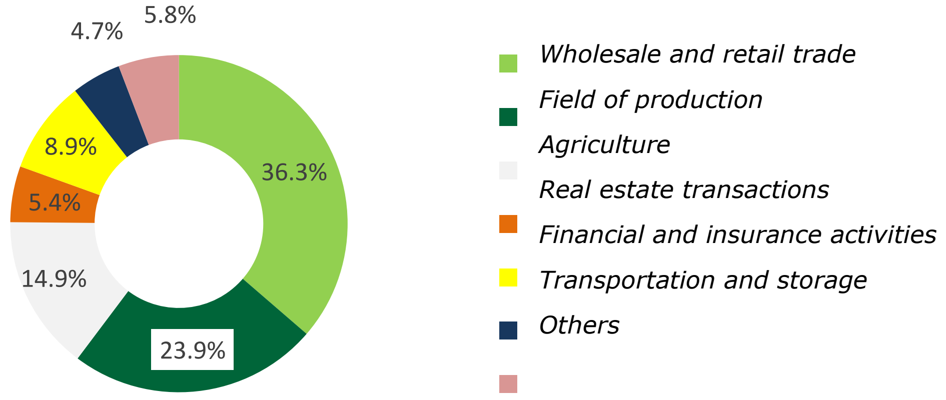
FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %, 2021

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %, 2022

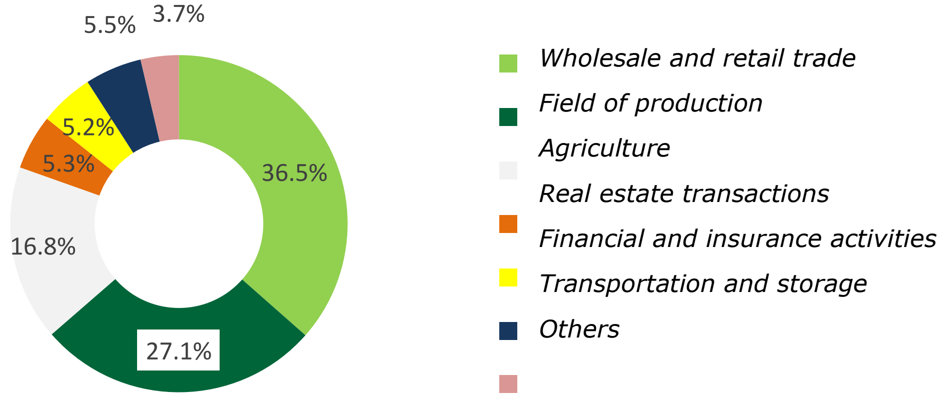
LOANS TO CORPORATE CUSTOMERS, % 2020

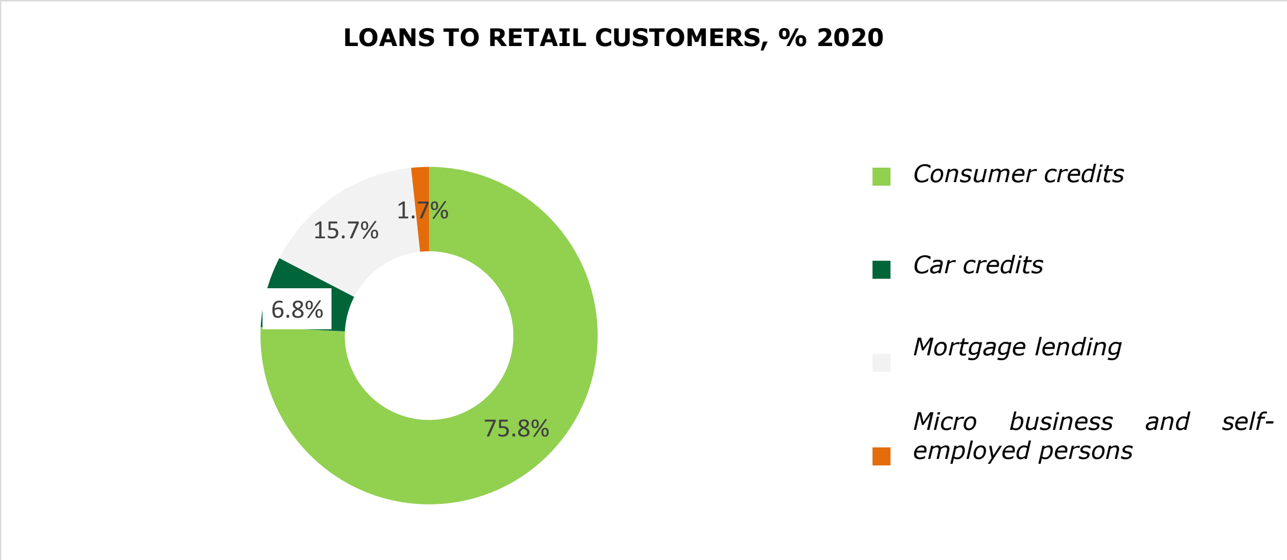


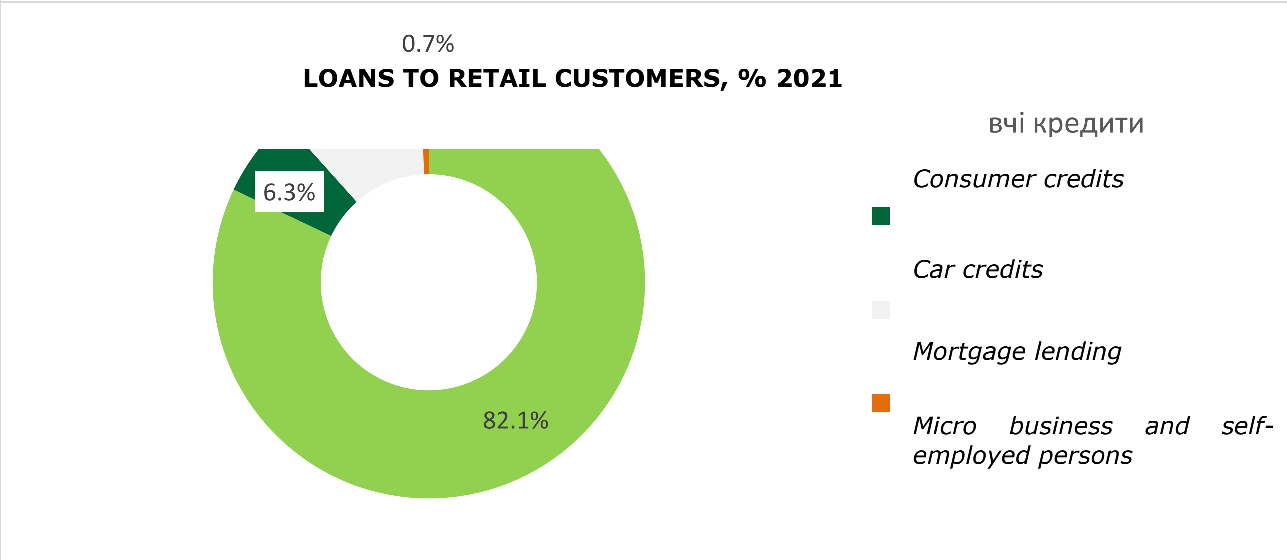
LOANS TO CORPORATE CUSTOMERS, % 2021

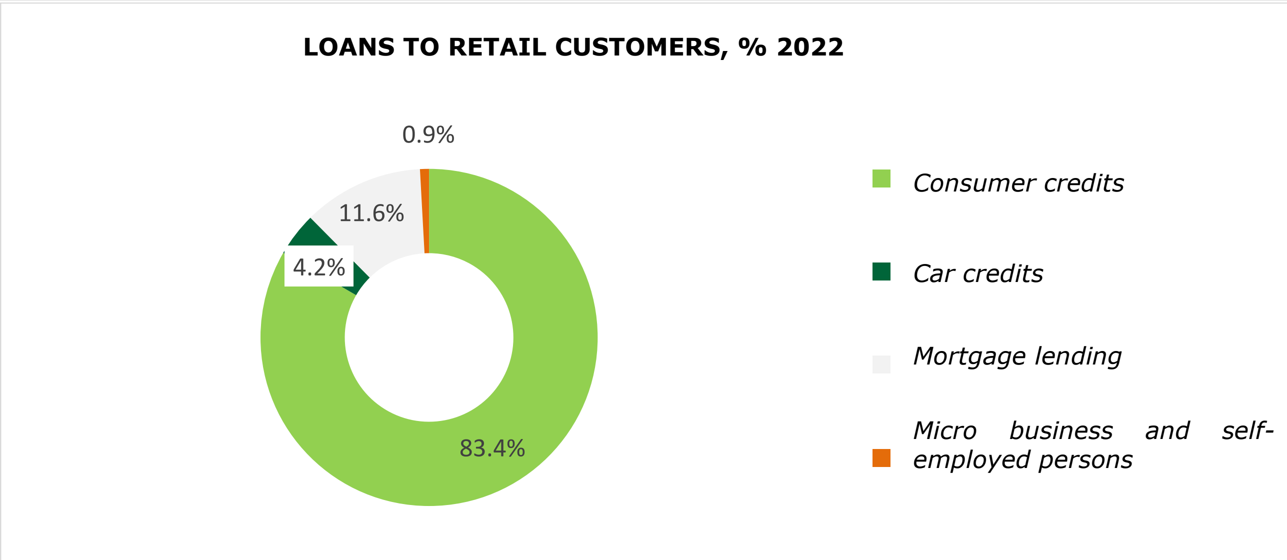


LOANS TO CORPORATE CUSTOMERS, % 2022




LOANS TO RETAIL CUSTOMERS, % 2020
1.7%
15.7%
6.8%
75.8%
Consumer credits
Car credits
Mortgage lending
Micro business and self-employed persons


0.7%
LOANS TO RETAIL CUSTOMERS, % 2021
вчі кредити
6.3%
82.1%
Consumer credits
Car credits
Mortgage lending
Micro business and self-employed persons


LOANS TO RETAIL CUSTOMERS, % 2022
0.9%
11.6%
4.2%
83.4%
Consumer credits
Car credits
Mortgage lending
Micro business and self-employed persons

Liquidity and market risk management

Liquidity risk is the probability of losses, additional losses, or failure to receive planned income as a result of the bank's inability to finance the growth of assets and/or fulfill its obligations in due time.

The source of risk can be both changes in the terms and volumes of inflows of financial resources as well as changes in the market situation, which affect the value and the possibility of selling existing financial assets on the market in a short period of time.

The highest collegiate body of the bank that manages liquidity risk is the Assets and Liabilities Management Committee, which was created in accordance with the decision of the Supervisory Board of the bank. Liquidity risk management takes place on three time horizons. The operational level provides for liquidity management during the operating day in order to ensure a sufficient level of liquid assets as of the beginning and end of the operating day, taking into account the payment calendar, and also includes monitoring the execution and passing of payments during the operating day in order to identify significant unplanned deviations from the projected amounts of outflows and receipts for making operational decisions regarding the need to replenish the amount of liquid funds.

The next level of liquidity management is short-term liquidity management. The key indicators at this level are the LCR standard of the National Bank of Ukraine and internal short-term liquidity adequacy indicators.

Internal indicators are based on a common basis with the LCR standard, namely the availability of highly liquid assets to ensure the fulfillment of interbank obligations that are coming to an end and will not be renewed, covering the need for funds in the event of a stressful situation and a significant outflow of financing from the bank, and financing of short-term needs based on 3-month forecasts of the needs of business lines regarding the volume of growth of the portfolio of financial assets under the condition of the normal course of business activity. Short-term liquidity management with the help of internal liquidity limits allows the risk management units and the Asset and Liability Management Committee to make balanced decisions regarding the size of the portfolio of highly liquid assets, its structure, and the terms of placement of funds in financial assets, as well as determine the bank's interest rate policy regarding its financial assets and liabilities.

A significant role in the planning and management of short-term liquidity is played by models of the behavior of balances of funds on customer accounts, which are used to determine the expected size of deposit outflows at different time intervals during the calendar year. In order to manage liquidity, constant monitoring and analysis of the product structure of the bank's financial obligations is carried out, including the amount of borrowed and repaid funds and their value, as well as concentrations of deposits by remaining terms before their repayment and by groups of related counterparties. The results of the analysis are reflected in decisions on changing the structure of the portfolio of highly liquid assets.

Liquidity management is completed at the level of medium- and long-term liquidity management. Every year, the Assets and Liabilities Management Committee approves the bank's Financing Program, which defines the priorities of the credit and investment strategy and the methods of its financing. In addition, financial markets and the bank's market position are regularly analyzed, as is the monitoring of indicators of early response to the onset of a liquidity crisis and indicators of the need to implement the business recovery plan, including the financing plan, in crisis situations. In the national currency, the bank maintains liquid assets in an amount sufficient to fulfill all obligations within the next three months that will not be renewed after the end of their contract period and cover planned outflows from the main business activity and outflows of customers' funds in the event of a liquidity crisis.

In foreign currencies, the bank maintains a reserve of liquid assets in an amount sufficient to fulfill during the next month all obligations that will not be renewed, as well as cover planned outflows from the main business activity. The bank relies on the support of the parent bank in case of an outflow of customer funds denominated in foreign currencies.

During 2022, the bank continued to maintain a sufficient margin of excess short-term assets over the bank's liabilities, achieving an LCR of more than 250% in all currencies and, at a 1-year horizon, an NSFR of more than 170% in all currencies. With the beginning of hostilities, the bank was considered a "quiet haven by customers, and as a result, no significant outflow of customers' funds was recorded, which is inherent in stressful situations in the economy, but instead, there was an accumulation of balances in the accounts of bank customers. The ratio of credits to deposits improved during 2022, from almost 100% to 60% for the hryvnia as of the end of 2022, and from 50% to below 40% in foreign currencies as of the end of 2022. The minimum values of the LCR and NSFR indicators were recorded during the 2nd quarter of 2022, when the processes of settling a significant part of the portfolio through short-term restructurings were initiated; however, due to the completion of the period of restructuring part of the portfolio and conducting profitable operational activities of the bank in the 2nd half of 2022, these indicators significantly improved and reached record levels as of the end of 2022. Taking into account the expected changes in the calculation of highly liquid assets as a component of the LCR, the bank started the process of investing in the debt obligations of the G-7 countries. The bank's deposit portfolio remains sufficiently diversified; the share of the 10 largest depositors (groups of related depositors) of the bank does not exceed 20%, with a concentration slightly higher than this indicator only for customer balances in foreign currencies.

The interest rate risk of the banking book is the probability of losses, additional losses, or failure to receive planned income as a result of the impact of adverse changes in interest rates on the banking book.

The highest collegiate body of the bank that manages the interest rate risk of the banking book is the Assets and Liabilities Management Committee, which was established in accordance with the decision of the Supervisory Board of the bank.

Interest rate risk management in the banking book is based on measuring imbalances (gaps and open positions) in the amounts and terms of rate revisions for the bank's financial assets and liabilities and the mismatch of base interest rates or interest indices for various types of financial instruments. Regarding the interest rate risk in the banking book, the risk management unit calculates the sensitivity of net interest income to changes in market interest rates and changes in the economic cost of capital under six short- and long-term scenarios.

As of the end of 2022, the impact of changes in interest rates on the bank's net interest income over a one-year horizon has increased significantly and amounts to UAH 751.2 million, or 12.4% of the planned net interest income. subject to a shock of a drop in rates for all terms for the hryvnia of 400 basis points and a drop in rates for all terms for foreign currencies of 200 basis points. The increase in risk occurred against the background of a sharp increase in rates by the world's central banks to counter rising inflation in 2022,

which switched from the transitive and short-term format expected in 2021 to the fundamental and medium-term format typical of 2022. However, the realization of the risk is not expected before 2024, since the change in the policy trend of the world's key central banks is planned only for the horizon of the end of 2023 and/or the beginning of 2024. The maximum change in the economic value of capital reaches UAH 563.4 million, or 4.9% of the Bank's regulatory capital, as of the end of 2022 as a result of a parallel upward shift in the interest rate curve for all currencies except the US dollar, for which the worst value is reached by a slope-smoothing shock.

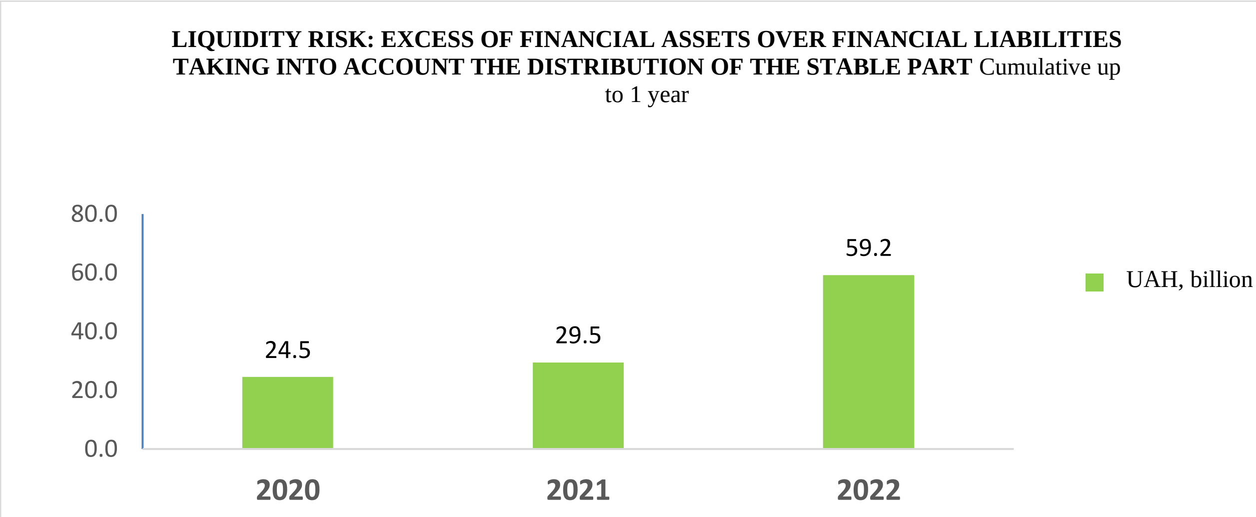
Market risk is the probability of losses, additional expenses, or failure to receive planned income as a result of unfavorable changes in foreign exchange rates, interest rates, and the cost of financial instruments.

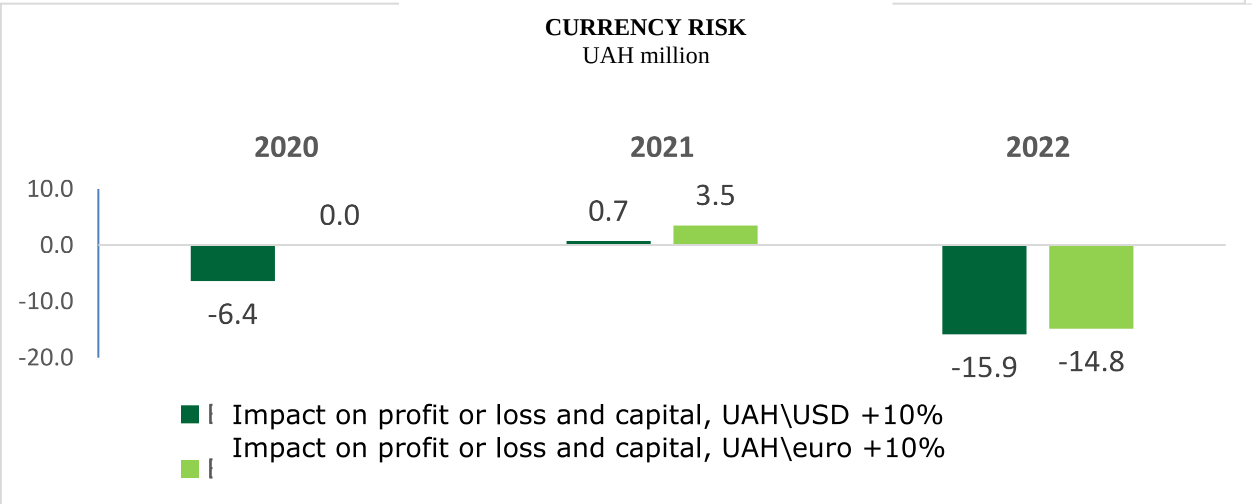
Market risk management is carried out both for the trading book (assets and liabilities, transactions with which are carried out in order to profit from short-term fluctuations in the value of these assets and liabilities, and hedging instruments of the trading book) and for the banking book (assets and liabilities that do not belong to the trading book).

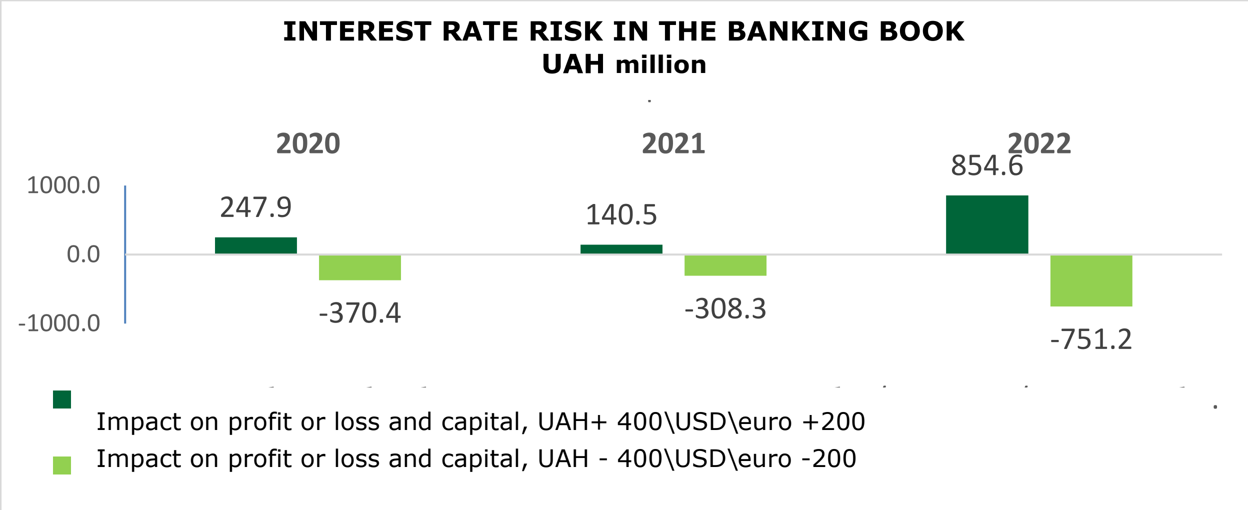
The highest collegiate body of the bank that manages market risk is the Assets and Liabilities Management Committee, which was created in accordance with the decision of the Supervisory Board of the bank.

Market risk management is carried out at the level of trading and banking books. Limits are applied in the trading book, which take into account the sensitivity of the value of financial instruments in the portfolio to

changes in market prices. For this purpose, BPV metrics, VaR limits, ES (expected shortfall) limits, and "stop loss" type limits are used, which limit the realized loss in the portfolio.
OTP Group has established a zero tolerance for currency risk (a maximum position limit of +/- 10 million US dollars for the period of martial law), so the bank avoids an open currency position in the bank book. During 2022, the size of the open currency position was determined by the operations of the bank's treasury in the trading book within the limits established by the National Bank of Ukraine, as well as deductions to reserves to cover credit risk for credits denominated in foreign currencies. Since the bank applied a proactive approach to the recognition of expected losses from the realization of credit risk and made significant deductions to reserves as of the end of the first half of 2022, restrictions introduced by the National Bank of Ukraine to take into account reserves for credit risks on credits denominated in foreign currencies did not have a significant impact on the size of the bank's short open currency position as of the end of 2022.
Regarding other market risks, namely the risk of changes in interest rates for securities in the bank's trading book, the limits were not used as of the end of 2022, which was a consequence of the sale of all securities in the bank's trading portfolio during 2022.







Operational risk management

Operational risk is the probability of losses, additional costs or failure to receive planned revenues due to deficiencies or errors in the organization of internal processes, intentional or unintentional actions of bank employees or other persons, malfunctions in the operation of the bank's information systems, or due to the influence of external factors.

Operational risk is inherent in any activity, so it is impossible to completely avoid it. Operational risk management aims to minimize the effect of the occurrence of operational risk events by applying appropriate response measures, minimizing the probability of occurrence of operational risk events by implementing a system of internal controls, and transferring/distributing risk through insurance tools and outsourcing processes.

The basis of the bank's internal control system is the division of functions of the bank's divisions into the first line of defence, which includes all business units and support/security units, the second line of defence, i.e. control, which consists of the risk management units and the compliance unit, and the third line - internal audit. The focus of the bank's internal control system and the distribution of resources is determined, first of all, by the process of regular collection of information on operational risk events, analysis of cause-and-effect relationships and introduction of changes to the bank's products and processes to minimize the probability of occurrence and scale of losses in the future. Another structural element of the system of internal controls is the annual process of self-assessment and testing of internal controls, which helps to identify those components of the bank's processes that are most prone to operational risk events. The result of the conducted analysis is taken into account when establishing indicators of tolerance for losses as a result of the implementation of operational risk events, namely, when calculating the maximum amount of losses accepted by the bank within the framework of the functioning of an effective system of internal controls, at which the foregone income or operating costs of further risk minimization will be higher than the amount of risk reduction.

Other operational risk management tools are key risk indicators and stress scenarios. Key risk indicators complement the system of internal controls by establishing limit indicators of the frequency and/or scale of the effect of operational risk events or events that may lead to the realization of operational risks in terms of the bank's processes and/or products, which are characterized by a high frequency of operational risk events, but in small amounts of each of the events. On the other hand, stress testing of operational risk events uses accumulated experience and a modelling process to assess the likely impact in the event of adverse scenarios, which occur infrequently, but the effect of their occurrence is very significant. Annually, according to the advanced measurement approach, the bank calculates the amount of capital necessary to cover losses from the occurrence of operational risk events.

For uninterrupted functioning of the bank in the event of an extraordinary event in the bank, the Plan for ensuring the continuous operation of the head office and the Plans for the recovery of the operations of the divisions have been developed. The business continuity plan, developed as a whole for the bank's head office, provides for the possibility of restoring the bank's head office as a whole in the necessary volume depending on the scale of the consequences of force majeure circumstances, in the agreed sequence and according to the defined priorities. Plans for the recovery of the activities of the divisions provide for the possibility of the recovery of the activities of a separate division of the bank in the necessary volume, depending on the scale of the consequences of force majeure circumstances, in the agreed sequence and according to the determined priorities. The Bank carries out regular testing of plans to ensure continuity of operation and recovery of operations.

When outsourcing banking processes, the bank continues to control the risks associated with these processes by determining the criteria for the quality and timeliness of services provided by the outsourcing provider, collecting information on operational risk events, analysing the outsourcer's recovery plans, and conducting inspections of the outsourcing process by the bank's internal audit.

Operational risk is a residual risk resulting from the application of risk minimization measures within the internal control system. Risk limits are distributed between business lines and categories of operational risk event types and are set as a percentage of operating income or in absolute amount.

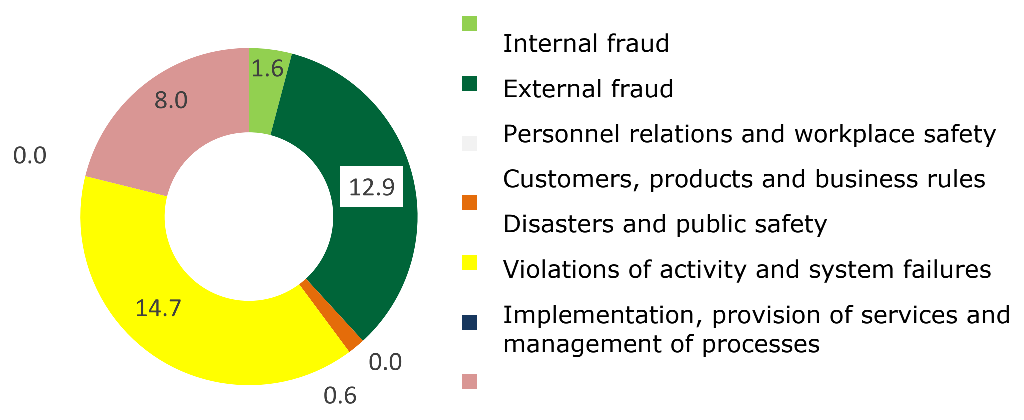
With the beginning of hostilities, the bank applied the Business Continuity Plan, certain elements of which were adapted to the actual course of events, including attack s on the energy infrastructure of Ukraine,

and in the 2nd quarter, the action plan for the introduction of martial law was created and implemented. Regarding the work of the staff, the principle of remote work is used as much as possible; a significant part of the critical staff, which ensures the operational activities of the bank, was moved to a safe part of Ukraine and, to a large extent, outside the borders of Ukraine. Regarding the bank's infrastructure, key locations and 50 of the bank's 71 branches, which continue to provide banking services, were provided with alternative sources of energy supply. Regarding the functioning of the information technology infrastructure and information security, the bank complies with the requirements for the presence of two information processing centers, geographically distant from each other, and has introduced not only the storage of information on server media in the "cloud", but also the gradual transition to the parallel conduct of banking operations in the land-based physical infrastructure and in the environment of virtual "cloud" technologies.

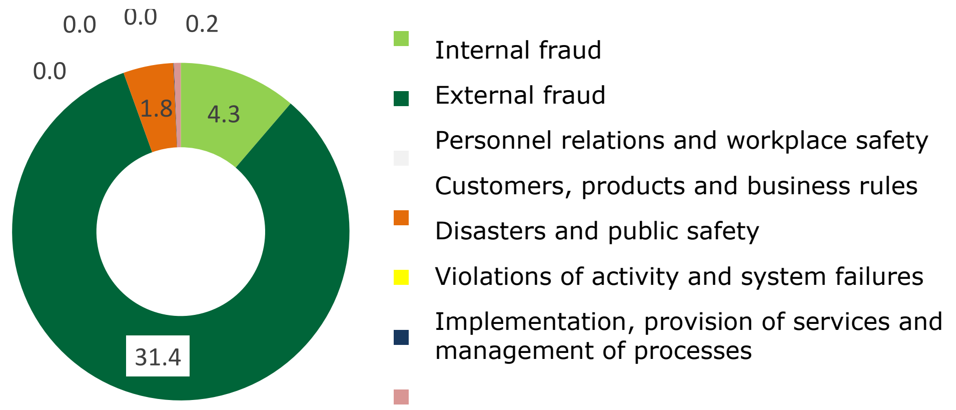
The net effect of losses from operational risk events, which were identified in 2022, increased to UAH 2.3 billion. However, the structure of losses has changed significantly: almost 99% of losses are the consequences of military actions, namely credit risk caused by operational risk, as measured by the amount of deductions to reserves to cover credit risks, according to which the facts of damage to the borrower's property and/or loss of control over the borrower's property in the temporarily occupied territories are recorded.

The bank completed calculations of capital requirements to cover operational risks, which Ukrainian banks are required to calculate starting in 2022 as a ratio of 15% of the sum of three components: net interest income/expense and dividend component, service component, and financial component. Capital requirements to cover operational risks for 2022 amount to UAH 845 million, less than 8% of the bank's regulatory capital as of the end of 2022; however, during 2023, only 50% of this requirement will be taken into account when calculating the bank's capital.

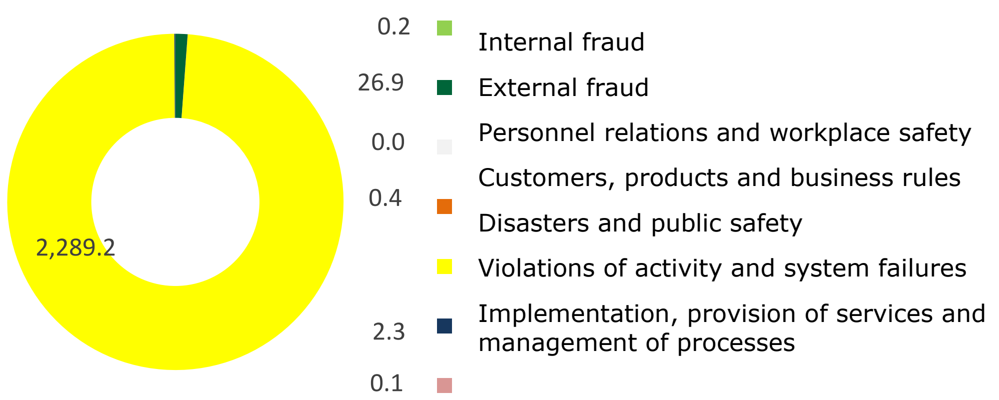
CATEGORIES OF OPERATIONAL RISK EVENTS,2021
UAH million



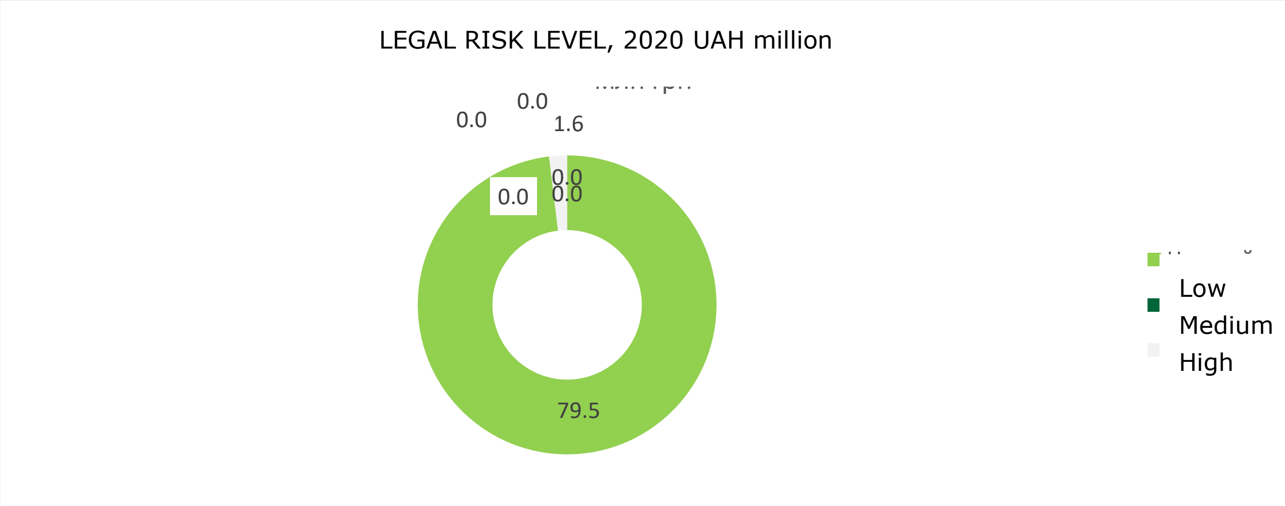
CATEGORIES OF OPERATIONAL RISK EVENTS,2020
UAH million

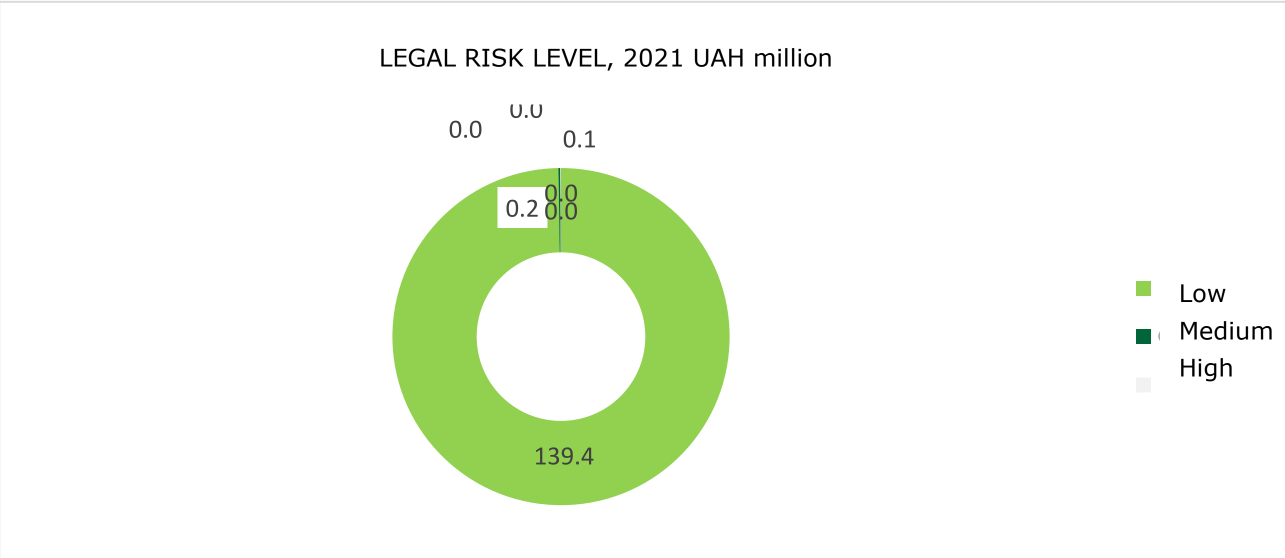


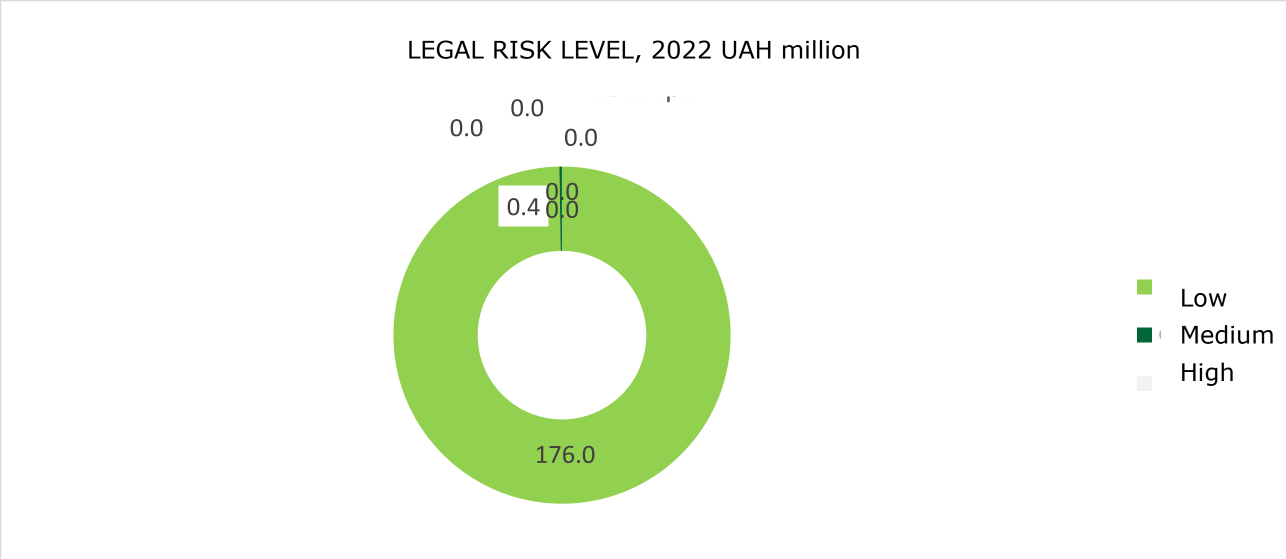
CATEGORIES OF OPERATIONAL RISK EVENTS,2022
UAH million



Legal risk management as part of operational risk occurs by dividing the size of the portfolio of material lawsuits into categories from low to high risk, depending on the stage of claim-lawsuit work and the availability of decisions in favor of the bank. Reserves are created for the entire size of the portfolio assigned a high level of risk. During 2022, the bank increased the total amount of legal risk for claims in which the bank is the defendant by 26%, while the structure continued to be dominated by low-risk claims.







13. ACHIEVEMENT OF THE CORPORATE BUSINESS LINE

OTP Bank entered 2022 well adapted to the new environment, with an understanding of new challenges and process management skills in "remote work conditions." Together with the coordinated work of the team and a balanced risk management policy, this allowed OTP Bank to prove its ability for operational continuity in the conditions of a full-scale war.

At the beginning of the war, understanding the difficult situation in which hundreds of thousands of people, companies, and the country as a whole found themselves, bank managers constantly maintained contact with customers and, thanks to the available technological solutions and the support of the shareholder, provided customers with daily uninterrupted service.

According to the initial development strategy and plan for corporate business lending in Ukraine in 2022, the bank began to actively provide new financing. And after the start of the war, despite the martial law and its consequences, it remained a reliable financial partner for its customers, continued to finance, and, if necessary, provided borrowers with support in the form of short-term extensions and restructuring of credit obligations.

In addition, OTP Bank financed the sowing campaign of 2022 in the amount of over UAH 800 million, including within the limits of the unique Ukrainian market product "Agrofabrika". In the autumn, after updating the credit policy based on the needs of a wider range of companies, the development of economic sectors, and also taking into account changes in the promotion of military operations, OTP Bank began to lend Ukrainian businesses even more actively, significantly expanding financing offers in terms of conditions, in particular credit amounts, for a wider range of borrowers.

Also, in the fall of 2022, the bank expanded its cooperation with the EBRD, concluding an agreement under the Risk Sharing Program to provide new financing in the amount of EUR 30 million, which became an additional tool for customer support and a confirmation of the high assessment of the reliability of OTP Bank by foreign financial institutions. According to the terms of the agreement, the collateral for credits that OTP Bank provides to borrowers is risk coverage from the EBRD in the amount of up to 50% of the new credit portfolio.

In general, in 2022, OTP Bank additionally financed corporate customers in the amount of over UAH 4.2 billion, more than half of which was lending to agribusiness, thereby ensuring the country's annual food program as well as financially supporting the uninterrupted work of its customers working in critical sectors of the economy.

Due to financial stability, reliability, constant contact with customers, and level of service, almost 5,000 new customers—legal entities—became customers of OTP Bank in 2022.

Corporate business products

Despite the beginning of the enemy's military operations against Ukraine, OTP Bank did not stop the further development of the bank's products and processes. In corporate business, during 2022, OTP Bank continued to work towards the development of electronic ordering and document processing. The biggest improvements were implemented in currency operations, account opening, and re-identification of existing customers.

a) Currency transactions:

In 2022, the NBU introduced several strict restrictions on buying and sending foreign currency abroad. The first months were aimed at stabilizing and optimizing processes related to legislative changes. But despite this, OTP Bank continued working on optimizing the processes of preliminary review of documents for the purchase and sale of foreign currency by legal entities. In particular, the bank has automated the process of processing applications for the sale of currency, which covers almost 90% of such applications, and the time of receiving hryvnias from the sale is up to 15 minutes, and most purchase applications are processed by the bank within 3 hours.

b) opening additional accounts and making deposits on demand for legal entities through the Client-Bank system:

In order to ensure the fastest and most convenient opening of additional accounts and deposits on demand, the process of submitting documents and obtaining details of new accounts through the Client-Bank system was implemented. When creating documents, the forms for filling out by the customer are maximally simplified, and the process of processing applications by OTP Bank employees is automated.

c) Payments in national currency:

The main technological improvements in terms of operations in the national currency were:
- implementation of SMS confirmation of "fraudulent payments" to replace telephone confirmation of such payments in order to speed up operations and increase the security of transactions;
- dock integrator: automation of the exchange of documents and statements via API with all variants of accounting systems of legal entities and the possibility of uploading and signing a large number of payments (up to 10,000 at a time).

d) The design of the Client-Bank Click-to-Pay system has been updated according to customer feedback.

The hryvnia payment form has been optimized (reduced by 1.5 times);
The block with advertising has been optimized;
Messengers have been added to the login page for quick communication with employees of the bank's information center for legal entities (CoHub);
display of signs of the presence or absence of signatures on the paper form of payments in the national currency.

e) Re-identification for legal entities:

In order to optimize and simplify the process of re-identification by OTP Bank customers, OTP Bank implemented online submission of questionnaires through the Client-Bank system. At the same time, in order to speed up the process of customers filling out the survey letter, the bank implemented integrations with open sources of information and bank systems for pre-filling the fields of the document with the possibility of editing.

14. ACHIEVEMENT OF THE RETAIL BUSINESS LINE

Achievements and recognition in the retail business segment

Retail business

OTP Bank is one of the largest Ukrainian banks with foreign capital and a recognized leader in the retail financial sector of Ukraine. Through 73 branches in all regions of Ukraine (except temporarily occupied territories), the bank provides a full range of financial services to almost 1 million active customers—individuals. In May, a new branch of the bank in Irpen, which was planned to open in March, began its work. Damaged by shelling, it was restored and began working with customers two months after the liberation of the city from the occupiers.

In general, the bank's customers use deposits, current accounts, debit and credit cards, credit services for purchases, and consumer credits.

Despite the full-scale war, after a short break in lending to private individuals, OTP Bank was the first on the market, starting June 1, 2022, to resume providing credits for the purchase of consumer goods in a network of partners with the involvement of its own staff and as a credit broker in the three largest trading networks: Comfy, Eldorado, and Foxtrot, which gave an impetus to the restoration of lending to other banks.

In addition, OTP Bank introduced instant instalment through the mobile application for credit cards in the network of partners. According to the results of the year, "Skybochka" is available at the largest retail chains, including Comfy, Rozetka, Eldorado, Moyo, Ukrzoloto, and others.

However, in connection with the large-scale war, the bank's business focus changed from active consumer lending to the attraction of individuals' funds for term deposits and savings accounts. To this end, OTP Bank held four large "Be Free! (Buty vilnym) promotions during the year, during each of which it gave away valuable gifts to customers that helped their owners not depend on circumstances and troubles, namely electric scooters, mini solar power plants, and portable charging stations. As a result, at the end of the year, time deposits in hryvnia in the OTP Bank increased by 95%.

Also in 2022, OTP Bank continued to expand its product line, adding the Ladna virtual card to it, which allows users to pay in stores, transport, pay for purchases on the Internet, receive payments, make transfers, store funds on it, and withdraw cash from ATMs, which support such operations using a smartphone with an NFC module. The card is issued independently by the customer in the OTP Bank UA mobile application in 1 minute without visiting a bank branch and can be opened in hryvnias, US dollars, and euros.

In 2022, OTP Bank once again entered the list of authorized banks of the country, through which pensions, cash assistance, payments under mandatory state social insurance, and wages to employees of budget institutions are paid, and began paying pensions to military personnel along with other categories of pensioners. In addition, last year, citizens of Ukraine who belong to the most vulnerable categories of the population received help from international organizations through OTP Bank.

For recipients of social benefits, the bank continued to provide the "Social" card, and for pensioners, the Visa "Osoblyva" pension card with numerous advantages, in particular, an increased interest rate on the remaining funds in the accounts. Also, to support pensioners, the bank introduced the "Absolute Advantage" deposit with increased interest. In addition, in the spring, OTP Bank launched a free phone line with a team of assistants, "Lesyk from OTP," to serve customers who, due to various circumstances, do not have the opportunity to use the Viber chatbot.

Understanding how the war negatively affected the solvency of many Ukrainians, OTP Bank introduced the online debt refinancing service "Credit Support" in OTP Bank UA mobile banking for its own customers—borrowers who have difficulties making payments. Thanks to the new function, the customer can independently reduce the monthly debt burden online.

At the end of 2022, due to massive attacks on the energy system of Ukraine, blackouts became a permanent phenomenon, so the bank began to actively prepare for the possibility of prolonged blackouts. To this end, OTP Bank equipped more than 80% of its branches with alternative energy sources and backup communication channels and joined the all-Ukrainian network of Power Banking branches that could serve Ukrainians in the event of a long-term blackout. At the same time, OTP Bank took part in "ATM Roaming," an initiative that provides a customer of any bank, including OTP Bank, with the opportunity to receive funds in the ATM network of other banks within increased limits and without commissions. According to it, OTP Bank increased the limit of one transaction for withdrawing cash from its own ATMs from cards issued by other banks to UAH 10,000 without limiting the number of transactions per day.

Last year's realities pushed the bank to integrate elements of corporate social responsibility into products for retail customers. In particular, for three months, OTP Bank together with Mastercard conducted a charity initiative aimed at supporting the Ukrainian army. Under the terms of this initiative, OTP Bank transferred 1 hryvnia to the account of the Armed Forces of Ukraine for each top-up of a Mastercard card from OTP Bank from a card of another bank through a transfer to the card number. Thus, the specified amount of the transfer was credited in full to the customer's card, and 1 hryvnia was paid to the ZSU account by OTP Bank on its own account. As a result of this initiative, OTP Bank transferred more than UAH 1.2 million to support the Ukrainian army. In total, the bank allocated more than UAH 70 million to support the armed forces.

Premium banking in the conditions of martial law

In 2022, the premium banking direction was focused on improving the quality of services. To this end, a lot of time was spent talking to premium customers, conducting surveys, and conducting in-depth interviews to understand their needs and pain points in the service process.

The Premium Banking 2022 concept was updated, within which premium customers received:

- ✓ **the possibility of consultation with two premium managers—**in the branch and in the information center. The role of the premium manager in the branch is to solve complex requests from customers and find solutions to multiply their funds, and the role of the online manager is to quickly and efficiently solve a simple customer question;
- ✓ **live communication with an online manager** in a separate premium OTP Bank Viber or Telegram chat;
- ✓ **comfortable consultations by video call—**at the request of the customer. This helped clearly demonstrate to customers such important issues as currency conversion when making payments abroad or how a credit line works.

As part of the new concept of Premium Banking 2022, a **digital assistant for premium managers** was created based on the OTP Bank chat, which enables the premium manager in the branch to transfer the requests of premium customers to the online manager for quick resolution. Despite the martial law, the number of premium customers of OTP Bank grew by 12% (5878 new premium customers), and the premium business ranks first in the structure of revenues by business lines (31%).

Private banking - achievements and plans

The year 2022 was really a year of hardships, when the organization of uninterrupted and stable work by the bank, constant communication with customers, and the possibility of finding non-standard solutions in solving all requests became the keys to maintaining trust and developing relations.

Private banking is, first and foremost, a long-term relationship. Therefore, round-the-clock customer support, maximum automation of processes, and the possibility of remote and physical service in branches in all regions of Ukraine preserved the trust that had been built up over the years and helped to expand the circle of private banking customers thanks to the recommendations received. Maintaining a professional team of employees and harmonious interaction between all departments is precisely the advantage that is appreciated when working with this segment of customers.
Despite market turbulence, we maintained our performance on many key indicators at the 2020 level, with some significantly improving.
Already in the first days of March 2022, together with our customers, we participated in the auction of the Ministry of Finance of Ukraine and conducted the first purchase and sale agreements of military government bonds, which, in addition to guaranteeing income for the customer, also became an element of aid to the state in wartime in the amount of almost UAH 2 billion (equivalent) throughout the year.
Private banking and investment banking are synonymous words, and despite temporary restrictions on some investment operations, we are not stopping. Since the end of 2021 and before the introduction of martial law, our customers have become shareholders of world-famous brands thanks to the purchase of securities on international markets, where OTP Bank assumed the role of a broker. We implemented more than 300 deals worth almost 8 million US dollars, which made it possible to effectively diversify savings. And throughout 2022, our customers received quarterly dividends from previously made investments.
We understand that some restrictions are temporary, so in the future our customers will return to international investment markets, and we also take into account the fact that interest in government securities is always high among private banking customers. Therefore, in 2022, we will have automated all internal processes with securities based on Creatio as much as possible, and we are currently developing an investment mobile application based on OTP Bank UA mobile banking. Already in 2023, the start of sales of government bonds through a mobile application is planned, which will make it possible to simplify all processes for customers as much as possible and increase the number of transactions.
Helping the country in wartime through the purchase of government securities is a priority task, so our attention is specifically directed toward the promotion of domestic government loan bonds among our customers.
OTP Bank is a traditional leader in providing its customers with the widest investment opportunities on the Ukrainian market; therefore, private banking at OTP Bank was recognized as the best "premium banking" in the rating of "25 leading banks during the war," according to the version of the Financial Club Awards 2022.
The strategy for the development of private banking and investment banking, including for 2023, is drawn up within the overall group strategy for the development of Global Markets OTP Bank, of course, considering the situation in the country, legislation, peculiarities, and culture of local markets.
However, our joint task is always stability of work and development of the direction, the creation of better investment proposals, taking into account the analysis of global trends.

15. ACHIEVEMENTS OF THE TREASURY

OTP Bank's Treasury offers a wide range of products and services to companies as well as to institutional investors: currency agreements ("spot") for corporate and retail customers; currency swaps; various money market instruments; and REPO for financial institutions. In its strategy and work, the treasury is guided by the vision: "to remain one of the most reliable and successful treasuries in Ukraine."
We have two strategic goals:

- maintain leadership in the field of providing financial services, the main value of which is highly professional expertise;
- to be the main partner of corporate, retail, and premium segment customers, as well as their business.

Despite the war, the revenues of the Treasury managed to be kept at a high level and even exceeded the results of the previous year. This was the result of a balanced portfolio of services, which includes trading for own needs and on customer orders. Growth was due, first of all, to a quick response to changes in legislation and market conditions.

According to the rating of the Ministry of Finance of Ukraine, OTP Bank took the 6th place among primary dealers, but considering that during martial law the first 4 positions were taken by state banks, OTP Bank is the second among commercial banks.

After the opening of the secondary market for domestic state loan bonds in August, OTP Bank offered customers domestic state loan bonds with a yield that exceeded the deposit rate and, in some cases, the yield of the primary market.

16. THE FUTURE OF THE BANK, DIGITALIZATION AND REMOTE SALES CHANNELS

In 2022, OTP Bank improved its remote services and processes, primarily with the aim of ensuring compliance with the updated requirements of the National Bank of Ukraine, internal security and payment systems, as well as improving the user experience of its customers. Among the most significant innovative changes and implementations for retail customers were the following:

- the possibility of restructuring credit debt remotely through a mobile application - the "Credit Support" service;
- transfer of purchases made using a credit card to payments through the mobile application;
- consultations of premium customers through a separate chat.

Also, the bank continued to develop the mobile application, renaming it to OTP Bank UA and thereby changing its positioning from a credit assistance to full-fledged mobile banking. This mobile application allows the customer to carry out p2p operations, pay off credits and buy goods in instalments, keep a payment calendar, receive reminders about the necessary payments, information about the subsequent payment of the commission, etc. Thanks to this decision, customers of OTP Bank can use products and services without visiting branches, which became crucial in wartime conditions.

17. CORPORATIVE MANAGEMENT

To realize the intentions of the shareholders and the bank's management to achieve the highest level of performance and the ability to instill confidence in partners and customers in the long-term economic potential of the bank, the bank adopted its own principles (or code) of corporate governance, a document that outlines the attitude of shareholders and bank management toward the main problems of corporate governance and methods of solving them in the bank.

Bank shareholder

A bank shareholder must protect the interests of the bank and its depositors by actively using his powers at the General Meeting of Shareholders, i.e., the bank's highest management body. The shareholder shall take all necessary measures to ensure that the ownership structure of the bank does not impede corporate governance at an appropriate level. Only competent and reliable persons, who can bring their own experience to the benefit of the bank, were elected members of the Supervisory Board, and the Supervisory Board reported on and was responsible for the activities and financial condition of the bank. When making his own decisions, the shareholder must first of all take into account the interests of the bank's stakeholders, namely depositors, other creditors, bank employees, and others. In turn, the bank promotes the implementation and ensures the protection of the rights and legitimate interests of the shareholders, as provided for by the charter, the provisions of the general meeting of the bank's shareholders, and the current legislation of Ukraine. The shareholder's right to participate in the management of the bank is realized through his participation in the general meeting of the bank shareholders.

Supervisory Board of the bank

The Supervisory Board is a collegial body that protects the rights of depositors, other creditors, and shareholders of the bank and, within the limits of its competence as defined by legislation and the bank's charter, monitors and regulates the activities of the bank's Board. The Supervisory Board does not participate in the current management of the bank. The Supervisory Board monitors the activities of the bank's board, compliance with the charter, and any other relevant regulatory provisions. In this regard, the Supervisory Board has the right to check accounting data and the performance of any management functions in the bank. The Supervisory Board reviews the annual financial statements, including proposals for profit distribution and the annual management report, and submits its comments to them for consideration by the General Meeting. The bank's Supervisory Board forms committees (an audit committee, a risk management committee, and a remuneration committee) from among the members of the Supervisory Board for preliminary study and preparation for consideration by the Supervisory Board of issues within its competence. At the end of the year, the Supervisory Board reports to the General Meeting on its activities.

The Board of the bank

The board is the executive body of the bank, which carries out current management. The Board is accountable to the General Assembly and the Supervisory Board and organizes the implementation of their decisions. The Board develops and submits to the Supervisory Board for approval drafts of the bank's annual budget and strategy and ensures their implementation. The bank's development strategy defines existing and prospective banking products and services, markets, and areas of activity in which the bank plans to achieve an advantage over competitors, as well as the bank's needs for financial, operational, technological, and personnel resources.

The Supervisory Board approves the bank's development strategy in accordance with the main areas of activity determined by the bank's General Meeting of Shareholders. Implementation of the bank's development strategy rests with the bank's board. The bank's strategy is updated in accordance with changes in market conditions. On a regular basis and at the request of the Supervisory Board, the Board submits to the Supervisory Board a report on the state of implementation of the bank's development strategy, the financial and economic state of the bank, and the progress of the implementation of plans and tasks. The Board and the Supervisory Board hold joint meetings at least once a quarter. The bank is obliged to ensure the annual audit of separate financial statements, consolidated financial statements of the OTP Bank JSC group, combined financial statements of the banking group, and other information on the bank's financial and economic activities by an auditing firm in accordance with the legislation of Ukraine, including regulations of the National Bank of Ukraine, audit norms and standards approved by the Audit Chamber of Ukraine in accordance with international audit and ethics standards. At the end of the year, the Board reports to the Supervisory Board on its activities; the Supervisory Board reviews the annual report of the Management Board and submits its comments to it for consideration by the bank's general meeting of shareholders.

Independent divisions of the Bank

The bank forms a permanent unit for risk management that is subordinate and accountable to the bank's Supervisory Board and must be responsible for the implementation of internal risk management regulations and procedures in accordance with the strategies and policies, procedures, and risk management procedures determined by the Supervisory Board. In addition, the bank has established a permanent unit for control over compliance with norms (compliance) (hereinafter referred to as the compliance department), which is responsible for:

- ensuring the organization has control over the bank's compliance with legislation, intrabank/intragroup documents, and relevant standards;

- ensuring monitoring of changes in legislation and relevant standards and assessing the impact of such changes on processes and procedures implemented in the bank; monitoring the implementation of relevant changes in internal bank documents;
- providing clarifications and consultations to bank managers on their requests regarding control over the bank's compliance with Ukrainian legislation and relevant standards;
- control over the compliance risk arising in the bank's relations with customers and counterparties to prevent the bank's participation in or its use in illegal transactions;
- control over compliance with the mechanism of confidential notification of unacceptable behavior in the bank or violations in the bank's activities;
- ensuring the management of risks related to the conflict of interests,
- monitoring on a regular basis for the absence of conflict of interests between the bank's managers and the subject of the evaluation activity;
- ensuring the organizations control over the bank's compliance with norms regarding the timeliness and reliability of financial and statistical reporting;
- ensuring the organization has control over the compliance of the processes regarding the management of problem assets with the Ukrainian legislation and internal bank documents;
- ensuring control over the bank's compliance with the norms regarding the determination of the list of persons related to the bank to ensure the integrity and completeness of the process of identification of persons related to the bank and control over transactions with them;
- preparation of conclusions regarding compliance risk, which is inherent in new products and significant changes in the bank's activities, and regarding compliance risk for making credit decisions regarding credits to persons associated with the bank;
- monitoring the compliance of the system of compensations and reimbursements implemented in the bank, as well as the procedures for bringing bank employees to disciplinary responsibility, with the requirements of the Ukrainian legislation;
- preparation of compliance risk reports;

calculation of the compliance risk profile;

control over the protection of personal data in accordance with the legislation of Ukraine;
- ensuring the functioning of the risk management system through timely detection, measurement, monitoring, control, reporting, and providing recommendations for mitigating compliance risk;

provision of training and awareness among bank employees regarding compliance with legislation, relevant standards, and risk management culture, taking into account the bank's code of ethics

The compliance department is subordinate and accountable to the bank's supervisory board and performs its duties in accordance with the internal procedures and the current legislation of Ukraine.

The chief compliance manager ensures the coordination of work on issues of compliance risk management between the structural units of the bank, ensures the development and participates in the development of internal bank compliance documents. In cases of excessive risks to which the bank may be exposed, it is obliged to inform the supervisory board of the bank, the risk management committee, and the board of the bank about such risks. Upon discovering confirmed facts of unacceptable behavior in the bank, violations in the bank's activities, and conflicts of interest, he reports them to the National Bank of Ukraine if the Supervisory Board of the bank does not apply measures that ensure their elimination.

The bank forms an independent functional and structural division of internal audit, which is functionally subordinated and accountable to the Supervisory Board and acts on the basis of the provisions approved by the bank's Supervisory Board.

The internal audit unit, which provides the third line of defence, carries out independent verification and evaluation of the adequacy and effectiveness of the organization of corporate governance, the operation of the internal control system, including risk management systems, bank management processes, their compliance with the bank's size, complexity, volumes, types, nature of operations carried out by the bank, organizational structure and risk profile of the bank, taking into account the specifics of the bank's activities as systemically important (if such a status exists) and/or the activities of the banking group, which includes the bank, the organization of the internal anti-money laundering/terrorist financing system, the money laundering/terrorist financing risk management system.

The work of the internal audit unit is carried out in accordance with the annual plan approved by the bank's Supervisory Board. The internal audit unit reports on its work quarterly to the bank's supervisory board (audit committee) and the bank's board regarding the status of implementation or adoption of recommendations and the elimination of comments discovered during audits. The annual report to the bank's supervisory board and the bank's board contains information on the assessment of internal control systems, risk management, corporate governance, the most significant deficiencies identified during the reporting period, proposed or agreed-upon measures to correct the situation, as well as the degree of implementation of these measures.

Reporting on compliance risk

The bank's chief compliance manager regularly submits reports on compliance risk and compliance risk assessment to the bank's supervisory board, risk management committee, and board at least once a quarter, or more often in cases established by Ukrainian law.

Fiduciary duties

One of the fundamental concepts underlying corporate governance is the concept of fiduciary duties. A fiduciary duty exists where one person, customer, or owner places a special hope or trust in and relies on another person, or fiduciary, while the fiduciary acts in that person's best interests using his or her own discretion and experience. Fiduciary duties rest on the bank's managers, who are responsible for the management and control of the bank's activities. According to the Law of Ukraine "On Banks and Banking Activities", bank managers are obliged to act for the benefit of the bank and customers and put the bank's interests above their own. Bank managers (chairman and members of the bank's Supervisory Board, deputy chairmen and members of the bank's Board, chief accountant, deputy chief accountant) must fulfill their duties of loyalty and care towards the bank in accordance with the legislation of Ukraine and banking supervision standards.

Conflict of interest

The main business interests and statutory obligations of the bank are to ensure that the personal interests of the bank's managers and employees do not harm the business interests and obligations of the bank and its customers. Managers and other employees of the bank must avoid conflicts of interest in their work and recuse themselves from participating in decision-making if they have a conflict of interest that prevents them from properly fulfilling their fiduciary duties in the bank. Bank managers must inform the board in a timely manner, in accordance with the bank's current procedures, about the presence of a conflict of interest that may affect their performance of fiduciary duties. The head of the bank must be excluded from voting or participating in any other way in the adoption of any decision by the bank in respect of which there is a conflict of interest.

Transactions with related parties

Agreements made with persons related to the bank cannot provide for conditions that are not current market conditions. The process of identifying and uncovering related parties of the bank, the procedure for carrying out transactions with them, the process of supervising such transactions, as well as the approval and review of transactions with related parties of the bank, are regulated by the relevant internal procedures of the bank.

Prevention of sanctions violations

For the purpose of protecting national interests, national security, sovereignty, and territorial integrity of Ukraine and countering terrorist activities, as well as preventing violations of the legitimate interests of citizens of Ukraine, society, and the state, and the reputation of the bank, the bank undertakes not to violate special economic and other restrictive measures applied by the state, foreign international organizations, and/or foreign states to individuals and legal entities.

The compliance department analyzes all suspicious transactions and counterparties (companies) for which any element of a financial transaction is subject to sanctions or sensitive transactions, and then provides a conclusion and compliance risk assessment regarding the possibility of such a transaction or the establishment of business relations.

The system of confidential reporting of unacceptable behavior in the bank

The bank's corporate values are of great importance in the process of timely and frank discussion of problems. In this regard, the bank encourages employees and enables them to freely report their concerns about illegal, unethical, or questionable practices without fear of possible sanctions. The bank has introduced procedures, with the help of which bank employees are able to inform about their significant suspicions, regardless of the internal system of subordination. The early warning system includes mechanisms for ensuring the protection of workers.

Protection of the rights of financial services consumers

As a responsible provider of financial services, the bank pays special attention to protecting the rights and interests of consumers as well as the quality of the services provided to them. The Bank ensures that its employees who directly or indirectly encounter consumers receive appropriate consumer protection training and, thus, understand and apply consumer protection rules properly and act with due care and diligence.

To help consumers make informed financial decisions, the bank pays increased attention to compliance with the principles of consumer rights protection, transparent information practices, financial education, and the protection of vulnerable groups of consumers.

In order to avoid and/or minimize the risks of violation of the requirements of the legislation of Ukraine on the protection of consumer rights by bank employees, the compliance department constantly monitors the bank's compliance with the requirements of the legislation of Ukraine on the protection of consumer rights, including regulatory documents of the National Bank of Ukraine, the Individual Deposit Guarantee Fund, and methodological recommendations of authorized bodies, in particular, but not limited to: the laws of Ukraine "On Protection of Consumer Rights, On Financial Services and State Regulation of Financial Services Markets, On Advertising, On Consumer Lending" and others Particular attention is paid to compliance with the requirements for interaction with consumers in the settlement of overdue debt in terms of ethical behavior requirements.

Access to information and protection of information

The bank ensures equal access to the disclosed information, including its scope, content, form, and time of provision. The Bank has an effective information policy aimed at achieving the most complete realization of the rights of depositors, customers, other creditors, investors, shareholders, and other interested parties to receive information that can significantly influence their investment decisions.

The bank's information policy is developed taking into account the bank's need to protect information with limited access (confidential information, commercial secrets, and banking secrets). The bank takes measures to protect information with limited access, ensures its storage, and establishes an appropriate mode of working with such information. The bank determines the list of such information, observing the optimal balance between the openness of the bank and the need to protect its own commercial interests and the interests of the bank's customers, as well as considering the requirements of current regulatory and legal acts. The Bank guarantees the confidentiality of transactions, accounts, and deposits of its customers and correspondents. Information about legal entities and individuals, which contains bank secrecy, is disclosed in accordance with current legislation.

Fight against corruption

The bank declares its principled position and condemns corruption as an illegal and unethical way of conducting business.

In order to strictly comply with all requirements of Ukrainian legislation on combating corruption and based on the current anti-corruption policy of the OTP Group, the anti-corruption program of OTP Bank JSC (hereinafter, the program) was approved in the bank. The norms of the Program provide that the bank, realizing its responsibility for affirming the values of the rule of law and integrity, seeking to ensure its sustainable development, taking care of its own business reputation, to encourage the use of fair business practices, and also in the interests, in particular, but not exclusively, of its employees, officials, managers and founders (participants), business partners and customers declares, that its founders (participants), management bodies, officials and employees in their internal activities, as well as in legal relations with business partners, customers, state authorities, local self-government bodies, other legal entities and individuals are guided by the principle of "zero tolerance" to any forms and manifestations of corruption and bribery and take all measures prescribed by law to prevent, detect and counter corruption and related actions (practices).
The program establishes standards and requirements in accordance with the Law of Ukraine "On Prevention of Corruption" and the Model Anti-Corruption Program, approved by order of the National Agency for the Prevention of Corruption. The program defines and regulates the mechanism for monitoring compliance with the requirements of Ukrainian legislation on the prevention, detection, and countering of corruption and the mechanism for preventing abuse by managers and other bank employees.
In accordance with the bank's strategy and business plan, as well as taking into account the bank's business model, ethical business conduct with "zero tolerance" to corruption in all forms and manifestations is a principled position of the OTP Group and the Bank, including that which every employee must follow, i.e., not to have a risk appetite for corruption risks, thereby practicing "zero tolerance" for such offenses.
The Bank, in particular the compliance department, ensures the development and implementation of measures that are necessary and sufficient to prevent, detect, and counter corruption in its activities.
The manager, management bodies, and officials of all levels of the bank undertake to form a personal example of ethical behavior in the bank's employees and have zero tolerance for corruption, which is the basis of the bank's business culture, everyday business practices, and business reputation.
In order to identify facts and/or suspicions, the bank has organized safe, confidential, and accessible means of informing bank employees about facts, incidences, or suspicions of corruption violations, such as the offering (or suspicion) of an illegal benefit by a third party; demanding the provision of (or suspicion of) an unlawful benefit; incitement to commit corrupt acts; violation of the requirements of the program (or cases of incitement to such actions); and obtaining information about intentions or facts that may indicate the use or intention of using the bank or its employees in activities that contain or may contain signs of corruption component
For bank employees to notify the facts of a violation of the program or the commission of corruption or corruption-related offenses, relevant information is posted on the bank's internal portal and on the bank's official website.
Regular assessment of corruption risks is carried out in the process of assessing compliance risks as part of outsourcing risk assessment and management.
Every year, all bank employees undergo an electronic training course on compliance with the requirements of the anti-corruption program, which includes a mandatory knowledge test.

The bank and society

The bank's shareholders and management are aware of their responsibility to society regarding the observance of the rights of the bank's customers (consumers of services), strict compliance with all requirements of the current legislation of Ukraine, and fair competition. The main obligation of the bank to its customers is to be willing to meet their needs by providing the highest quality services possible. When making all decisions regarding the bank's activities, the social importance of the products and services provided by the bank for various segments of the population will be taken into account. The Bank maintains relations with state authorities and local self-government bodies based on mutual respect, equal partnership, transparency, and active cooperation. Depending on its capabilities, the bank will try to support social, cultural, and educational initiatives aimed at the development and improvement of citizens' lives. The bank guarantees the safety and health protection of its employees at the workplace. Personnel management activities in the bank will be aimed at ensuring fairness and equal opportunities for all employees and promoting the development of each individual.

18. SOCIAL RESPONSIBILITY

Most of the bank's activities within the scope of corporate social responsibility in 2022 were related to helping the country during a full-scale war: the army, workers who got into a difficult situation due to hostilities, internally displaced persons, children, and health care institutions.

The following directions should be singled out as being among the most significant:

The army needs help.

- In the first days after the start of the full-scale Russian aggression, OTP Bank made a transfer in the amount of UAH 10 million to a special account opened by the National Bank of Ukraine for the assistance of the Armed Forces.
- OTP Leasing, a leasing company that is part of the OTP Group in Ukraine, handed over a fleet of over 140 cars for the needs of the Armed Forces of Ukraine.
- As part of a joint charity initiative with Mastercard that lasted from April 1 to June 30, 2022, OTP Bank transferred more than UAH 1.2 million to support the Ukrainian army.
- In the middle of 2022, OTP Bank launched the initiative "Every month, a million for the Armed Forces." Within its limits, UAH 1 million was transferred twice to the All-Ukrainian Charity Fund "Patriot", which works on providing combat units for the "Azov Movement", and twice to the Kyiv School of Economics, which supports the army and humanitarian programs.

OTP Bank Helps Ukraine

In July 2022, OTP Bank, Ukraine, launched the charity fundraising platform " OTP Bank Helps Ukraine ", the purpose of which is to collect funds for the urgent needs of the country during martial law. The project was developed in cooperation with the bank's long-standing partner, Blagomai, a Ukrainian charitable foundation with a 10-year history, and payment service provider iPay.ua. The following initiatives have been implemented within the program:

- Two ventilators were handed over to the Mykola Pirogov First Mobile Hospital;
- Two sets of X-ray protective clothing were purchased for the surgery of the City Clinical Hospital No. 6 of the Dnipro City Council.
- Material assistance was provided to the Smilian Boarding House;
- scarce consumables for the acute hemodialysis machine in the amount of about UAH 1 million were transferred to the "Kyiv City Center of Nephrology and Dialysis";
- Assistance was provided in setting up a shelter at the Center for Social and Psychological Rehabilitation of Children in the village of Khmilnytsia, Chernihiv region;
- Teachers—immigrants from Kherson, Kharkiv, Donetsk, and Luhansk Zaporizhzhya regions—who live on the territory of Horodotsk territorial community in Khmelnytskyi region were given twelve laptops worth UAH 300,000 for conducting online lessons;
- provided material assistance (clothes, shoes, computers, toys, stationery, children's literature) to children from displaced families in Donetsk and Luhansk regions within the framework of the initiative "Get a displaced child to school";
- Funds were collected and transferred for the repair of two ambulances for the front;
-

- Together with the Estonian online gallery of modern paintings, plARTform organized an online auction of paintings by Ukrainian artists "Faces, Colors, and Shadows of War", Part of the money received from the sale of the paintings was transferred to the large project "Children of Heroes". Within its limits, OTP Bank Helps Ukraine collected funds to help children whose parents died during the defense of the country. Also, on St. Nicholas Day, OTP Bank congratulated more than 70 children of Ukrainian heroes with gifts, sweets, and festive events in its branches in Vinnytsia, Rivne, Khmelnytskyi, Irpen, Mykolaiv, and Odesa, with the assistance of the All-Ukrainian Association of ATO participants "Ukrainians Together!". Also, as part of this initiative, an online and offline charity fair was held among bank employees.

Helping bank employees during a full-scale war

1. Provision of financial aid

- 100% of employees received financial assistance in March 2022; the total budget was 41,375,250 UAH.
- UAH 962,725 in additional assistance (77 requests);

2. Accommodation of displaced employees and members of their families in the western regions of Ukraine (free accommodation and meals for all categories of personnel):

187 persons

- 65 employees;
- 70 members of employees' families;
- 52 children.

3. Accommodation of displaced employees and members of their families in OTP Group countries—Hungary, Bulgaria, and Montenegro (free accommodation, food, and transfer for all categories of personnel):

313 persons:

- 98 employees;
- 86 members of employees' families;
- 129 children.

4. Organization of online mathematics lessons for children of employees:

- 83 children;
- 100 classes;
- UAH 44,000.

5. Procurement of medicines for employees in war zones:

37 employees received essential medicines upon request.

6. Creation of local chats and appointment of curators for employees in war zones:

7 telegram chats (Chernihiv, Mykolaiv, Kharkiv, Dnipro, Zaporizhzhia, Sumy, Kherson)

7. Creation of telegram channels and a page on the bank's internal portal for the volunteer movement among employees

- 14 active volunteers;
- 11 projects have been implemented.
- UAH 1,434,000 was collected.

8. Holding support meetings for employees at all levels

- meetings of employees with the CEO;
- two master classes by Diana Kebas on "Sustainability During the War";
- master classes by Yunona Lototska on "War and I" (3 modules) for B-1/B-2 managers;
- internal webinar "How to Manage the Unmanaged" (3 modules) for heads of departments and managing departments;
- open webinars of the Develor company (6 webinars) for all employees (topics: "growth mindset,", "resilience and self-care,", "self-motivation,", "personal productivity in turbulent times,", "conscious communication," and "nonviolent communication).

Financial literacy

- In 2022, OTP Bank took part in a joint campaign with the National Bank of Ukraine organized to improve the financial literacy of the population under martial law, "Financial Defense of Ukraine". In particular, the goal of the campaign was to provide Ukrainians with as complete and detailed information as possible regarding banking and financial services that can be obtained during martial law. Through publications on the website and in social networks, the bank explained what the restrictions are on carrying out currency transactions, how to reissue a payment card if it has expired, what to do with the credit if it is not possible to make scheduled payments, and how to protect yourself from fraudsters.
- To help Ukrainian citizens who were forced to leave their homes due to the war, OTP Bank has developed a special information page on its official website. The page contains information about special offers from OTP Group member banks in 8 countries: Moldova, Romania, Hungary, Bulgaria, Croatia, Slovenia, Albania, and Serbia.

Environmental Protection

- In 2022, OTP Bank continued the implementation of the green project of collecting used batteries in 21 branches of its network. The project is implemented together with the public organization "Battereyki, zdavaites" (Batteries, Surrender), which sends batteries collected throughout Ukraine to the GreenWEEE power cell recycling plant in Romania. In total, 216 kg of batteries were collected and sent for recycling in 2022.

- In the main office of the bank, the "GO GREEN" project continued its work, the main purpose of which is to collect used paper in special containers. In total, during 2022, 270 kg of paper was sent for recycling.

Health care

- In August and December 2022, the bank held Donor Days, during which more than 60 employees donated blood for the needs of the M.M. Amosov National Institute of Cardiovascular Surgery.

Sport

- The OTP Group team, which includes employees of OTP Bank and OTP Leasing, took part in the 2021-2022 Bank Futsal League Championship and took 2nd place.

19 . CORPORATE SOCIAL RESPONSIBILITY

Bonus systems

All employees of OTP Bank receive regular monetary remuneration, which depends on personal results and contribution to the overall financial result of the bank.

The main financial evaluation methods at the bank are regular bonuses and one-time bonuses for particularly important tasks.

Regular premiums are divided, depending on the accrual parameters, into:

- KPI (Key Performance Indicator)-based: a financial system for evaluating the results achieved by employees, based on the level of achievement of strategic and individual goals;
- individual motivation systems—are used for business units and help establish the dependence of the bonus on the individual business result.

One-time bonuses for particularly important tasks are set for:

- participation in bank projects;
- overachievement of planned indicators, etc.

Motivational programs

In addition to the main bonus, employees of OTP Bank could receive additional incentives, namely:

- OKR (Objectives and Key Results) – a non-financial evaluation system that helps to determine the achievement of the cross-functional/project goal in the quarter by senior management;
- a bonus within the program "Recommend a friend!" for the successful recommendation of acquaintances for open vacancies in the bank;
- award for successful mentoring of a new colleague;
- valuable gifts for bank anniversaries.

The contribution of each employee is not overlooked and is rewarded.

Working conditions

Each employee of OTP Bank receives a job in a stable European company, which is one of the leaders in its field, as well as official employment, timely payment of wages, payment of vacation and sick leave, the opportunity to use a discount on medical insurance, etc.

Distance Learning

Distance learning plays an important role in the process of training employees. The e-learning platform and e-courses make learning interactive and interesting. The internal database includes more than 100 e-courses and tests on processes and products. Branch employees are constantly learning about new products and processes in the format of video seminars. Every quarter, managers of OTP Bank undergo comprehensive training from representatives of business schools. In the current climate, events are held in the form of webinars aimed at supporting the psychological health of employees.

External training

OTP Bank constantly engages the best trainers and speakers of the domestic market for training and deepening the skills of employees for the further development of professional and personal qualities and competencies.

JOINT STOCK COMPANY
OTP BANK

Separate Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2022

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Independent auditor's report

To the Shareholder and Supervisory Board of Joint Stock Company "OTP Bank"

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Joint Stock Company "OTP Bank" (the Bank), which are presented on pages 2 to 97 of the Bank's Annual Report 2022 and comprise the separate statement of financial position as at 31 December 2022, the separate statement of profit or loss, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion the accompanying separate 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 for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

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 separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Notes 2 and 3 in the separate financial statements, which indicates that the Bank's operations have been negatively affected by the Russian Federation's military invasion of Ukraine. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Bank'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 incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss on loans and advances to customers	
Assessment of expected credit losses in accordance with IFRS 9 "Financial instruments" is complex and inherently subjective process that requires application of judgements and making assumptions by the Bank's management. The use of different approaches and assumptions in respect of historical and forecast macroeconomic information, including changes consequent to the impact of Russian federation military aggression against Ukraine, in the assessment of such indicators as probability of default and loss given default, macroeconomic indicators, as well as identification of defaults or significant increase in credit risk since initial recognition of loan to customers could produce significantly different estimates of expected credit loss on loans and advances to customers.	Our audit procedures included assessment, with the help of our internal specialists, of the methodology, approaches and assumptions used by the Bank in respect of historical and macroeconomic information, including changes consequent to the impact of Russian federation military aggression against Ukraine and in consideration of facts and circumstances as of the reporting date, in the assessments of expected credit losses on loans and advances to customers, including default and significant increase in credit risk identification. We obtained an understanding, evaluated the design, and tested operating effectiveness of the controls related to the process of expected credit loss assessment on loans and advances to customers, including default and significant increase in credit risk identification. We also identified and tested controls related to calculations

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For individually assessed defaulted loans, the Bank applied judgments to estimate fair value of collateral and expected cash flows under a range of scenarios, including those considerate the impact of Russian federation military aggression against Ukraine.

In addition, the balance of loans and advances to customers represents a significant portion of total assets of the Bank and is a material to the separate financial statements.

Therefore, assessment of expected credit loss on loans and advances to customers was a key area of judgment for the Bank's management.

Information on expected credit loss and risk management policies is included in the Notes 3,6 and 24 to the separate financial statements.

and input data.

We tested information produced by the Bank and used in development of assumptions in calculation of expected credit loss, as well as for such indicators as: default, significant increase of credit risk, probability of default, loss given defaults, recoveries, macroeconomic indicators, which directly affect the amounts of expected credit loss on loans and advances to customers.

For individually assessed loans secured with collateral, using our internal valuation specialists, we assessed the methodology of collateral valuation, assumptions used to estimate its fair value and expected cash flows under a range of scenarios. In addition, we have analysed current circumstances related to Russian federation military aggression against Ukraine in the assessment of expected credit loss for these loans.

Also, we analysed the Bank's information about expected credit loss on loans and advances to customers included in the notes to the separate financial statements.

Other information included in the Bank's Annual report and the Bank's Annual Information of the Issuer of Securities for 2022

Other information consists of the Bank's Annual report (including the Bank's Management report) and other information included in the Bank's Annual Information of the Issuer of Securities (including the Corporate Governance report), but does not include separate financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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Responsibilities of management and the Supervisory Board for the separate financial statements

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

In preparing the separate 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 separate financial statements

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

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

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

we are required to draw attention in our auditor's report to the related disclosures in the separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board and the Audit Committee 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 and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board and the Audit Committee we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Report in accordance with requirements of Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended)

In accordance with Section IV paragraph 11 of "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended) ("Instruction No. 373"), we report the following:

In our opinion, based on the work undertaken in the course of our audit of the Bank's separate financial statements, the Bank' s Management report is prepared in accordance with requirements of Instruction No. 373.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing and in accordance with "Requirements to the information related to the audit and review of capital market participants and organized commodity markets under supervision of the National Securities

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and Stock Market Commission (the NSSMC)" approved by the NSSMC Decision №555 dated 25 July 2021 (hereinafter – "NSSMC Requirements"):

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's separate financial statements on 10 September 2021 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is two years.

Consistency of the independent auditor's report with the additional report to the Audit Committee and the Supervisory Board

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee and the Supervisory Board of the Bank, which we issued on 27 April 2023 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank or its controlled entities and which have not been disclosed in the separate financial statements or the Bank's Management report.

Reporting under the NSSMC requirements

- Full legal name of the Bank, information on the ultimate controlling party as well as ownership structure are disclosed in Notes 1 to the Bank's separate financial statements.

- As at 31 December 2022, the Bank had the following subsidiaries (all located in Ukraine): LLC "OTP Factoring Ukraine"

- As at 31 December 2022, the Bank was not a controller or a participant of a non-banking group.

- The Bank is a public interest entity according to the requirements of Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

- Prudential ratios, established by the NSSMC for relevant activity of professional participants in capital markets and organized commodity markets, are not applicable to banks that perform professional activities at stock markets in accordance with "Regulation on prudential ratios for professional activities at stock markets and risk management requirements" (as amended) approved by the NSSMC Decision No.1597 dated 1 October 2015.

- The Bank's Audit Committee has not performed an examination of the Bank's financial and economic activities for the financial year.

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- Limited liability company "Ernst & Young Audit Services" (ERDPOU: 33306921, web-site: www.ey.com/ua) have audited the Bank's separate financial statements according to agreement No. GFS-2022-00130 dated 26 October 2022. The audit was conducted in the period from 26 October 2022 to 25 April 2023.

The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S.

For and on behalf Ernst & Young Audit Services LLC

Svistich O.M.
General Director

Registration number in the Register of auditors and audit firms: 101250

Studynska Y.S.
Partner

Registration number in the Register of auditors and audit firms: 101256

Simak M.V.
Auditor

Registration number in the Register of auditors and audit firms: 101255

Kyiv, Ukraine

28 April 2023

JOINT STOCK COMPANY OTP BANK

Separate Statement of Financial Position for the Year Ended 31 December 2022 (In Ukrainian Hryvnias and in thousands)

	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	4	4,749,260	3,870,163
Loans and advances to banks	5	21,720,592	9,129,391
Loans and advances to customers	6	29,892,900	40,460,458
Investments in securities	7	32,852,589	14,627,919
Derivative financial assets		3,246	8,376
Investments in subsidiaries joint ventures and associates	8	139,143	139,143
Investment property		24,634	26,075
Current tax assets		5	110
Deferred tax assets	16	65,407	68,847
Intangible assets other than goodwill	9	362,306	344,801
Property plant and equipment	9	802,462	948,483
Other financial assets	10	330,426	118,981
Other nonfinancial assets	10	62,568	76,697
Total assets		**91,005,538**	**69,819,444**
LIABILITIES			
Due to others banks		231	1,225
Customer accounts	11	77,736,460	57,064,997
Derivative financial liabilities		9,233	4
Other borrowed funds		159	176
Provisions:			
Provisions for loan commitments and financial guarantee contracts	24	301,643	298,908
Other financial liabilities	12	1,070,480	1,106,276
Other nonfinancial liabilities	12	137,164	137,788
Current tax liabilities		119,500	149,689
Total liabilities		**79,374,870**	**58,759,063**
EQUITY			
Issued capital	22	6,186,023	6,186,023
Retained earnings		3,772,426	3,175,320
Share premium	22	405,075	405,075
Result from transactions with the shareholder	22	1,236,294	1,236,294
Other reserves		30,850	57,669
Total equity		**11,630,668**	**11,060,381**
Total equity and liabilities		**91,005,538**	**69,819,444**

Authorized for issue by management of JOINT STOCK COMPANY OTP Bank and signed on its behalf by:

Volodymyr Mudryi,
Chairman of the Management Board

26 April 2023

Natalia Diuba,
Chief Accountant

26 April 2023

Україна * АКЦІОНЕРНЕ ТОВАРИСТВО «ОТП БАНК» * м. Київ
Ідентифікаційний код 21685166

The accompanying notes on pages from 8 to 97 form an integral part of these separate financial statements.

JOINT STOCK COMPANY OTP BANK

Separate Statement of Profit or Loss
for the Year Ended 31 December 2022
(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Interest Income:	13	8,787,828	5,770,296
Interest income calculated by using the effective interest rate	13	8,774,395	5,740,629
Other interest income	13	13,433	29,667
Interest expense	13	(1,981,446)	(1,129,067)
Net interest income (net interest expense)	**13**	**6,806,382**	**4,641,229**
Commission income	14	1,785,441	1,989,949
Commission expenses	14	(663,787)	(700,725)
Other income		128,973	102,884
Net increase (decrease) from financial instruments at fair value through profit or loss		100,893	231,419
Net increase (decrease) from operations with debt financial instruments at fair value through other comprehensive income		(7,847)	183,338
Net increase (decrease) from trading in foreign currencies		713,690	301,288
Net increase (decrease) from foreign exchange translation		70,226	(202,227)
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9	15	(5,658,273)	(789,663)
Other expense		(134,244)	(118,864)
Other gains (losses):		(100,474)	(13,340)
- Net loss on modification of financial assets		(100,254)	(11,209)
Employee benefits expense	16	(1,408,154)	(1,328,609)
Depreciation and amortisation expense	16	(341,116)	(316,322)
Other administrative and operational expenses	16	(565,299)	(629,626)
Profit (loss) before tax		**726,411**	**3,350,731**
Income tax expense (benefit)	17	(129,305)	(605,620)
Net profit (loss)		**597,106**	**2,745,111**
Earnings per share			
Weighted average number of outstanding ordinary shares		499,238	499,238
Basic and diluted earnings per share, UAH		1,196	5,499

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Volodymyr Mudryi,
Chairman of the Management Board

26 April 2023

Natalia Diuba,
Chief Accountant

26 April 2023

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JOINT STOCK COMPANY OTP BANK

Separate Statement of Comprehensive Income
for the Year Ended 31 December 2022
(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Profit (loss)		597,106	2,745,111
Other comprehensive income			
Components of other comprehensive income that will not be reclassified to profit or loss, before tax			
Other comprehensive income - gains (losses) from investments in equity instruments, before tax		1,172	2,038
Components of other comprehensive income that will be reclassified to profit or loss net of tax			
Gains (losses) on financial assets at fair value through other comprehensive income, before tax		(41,983)	142,650
including:			
change in fair value of investments at fair value through other comprehensive income		(110,475)	209,643
change in allowance for expected credit losses on investments in debt instruments at fair value through other comprehensive income	24	68,492	(66,993)
Amount of accumulated profit / (loss), reclassified to profit or loss on disposal of investments at fair value through other comprehensive income		7,847	(188,680)
Income tax relating to items that may be reclassified subsequently to profit or loss	17	6,145	(12,299)
Total other comprehensive income that will be reclassified to profit or loss net of tax		**(27,991)**	**(58,329)**
Total other comprehensive income		**(26,819)**	**(56,291)**
Total comprehensive income		**570,287**	**2,688,820**

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26 April 2023

Natalia Diuba,
Chief Accountant

26 April 2023

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JOINT STOCK COMPANY OTP BANK

Separate Statement of Changes in Equity
for the Year Ended 31 December 2022
(In Ukrainian Hryvnias and in thousands)

	Notes	Issued capital	Share premium	Result from transactions with the shareholder	Other reserves: Revaluation reserve for investments at fair value through other comprehensive income	(Accumulated deficit)/ retained earnings	Total equity
31 December 2020		**6,186,023**	**405,075**	**1,236,294**	**113,960**	**1,630,209**	**9,571,561**
Net profit/(loss)		-	-	-	-	2,745,111	2,745,111
Other comprehensive income		-	-	-	(56,291)	-	(56,291)
Dividends recognized as distribution to shareholders		-	-	-	-	(1,200,000)	(1,200,000)
Increase/(decrease) in equity		**-**	**-**	**-**	**(56,291)**	**1,545,111**	**1,488,820**
31 December 2021		**6,186,023**	**405,075**	**1,236,294**	**57,669**	**3,175,320**	**11,060,381**
Net profit/(loss)		-	-	-	-	597,106	597,106
Other comprehensive income		-	-	-	(26,819)	-	(26,819)
Increase/(decrease) in equity		**-**	**-**	**-**	**(26,819)**	**597,106**	**570,287**
31 December 2022		**6,186,023**	**405,075**	**1,236,294**	**30,850**	**3,772,426**	**11,630,668**

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Chairman of the Management Board

26 April 2023

Natalia Diuba,
Chief Accountant

26 April 2023

The accompanying notes on pages from 8 to 97 form an integral part of these separate financial statements.

JOINT STOCK COMPANY OTP BANK

Separate Statement of Cash Flows
for the Year Ended 31 December 2022
(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Cash flows from operating activities			
Classes of cash receipts from operating activities			
Interest received		8,694,972	6,058,437
Commission income received		1,754,684	2,012,466
Net profit/(loss) from operations with financial instruments at fair value through profit or loss		113,546	223,047
Net profit/(loss) from operations with foreign currencies		713,690	301,288
Other cash receipts from operating activities (other income received)		140,785	98,942
Classes of cash payments from operating activities			
Interest paid		(1,994,258)	(1,083,402)
Commission expenses paid		(663,787)	(700,725)
Administrative expenses and other paid operating expenses, including:		(2,123,315)	(2,012,182)
Employee benefits expense		(1,437,346)	(1,278,976)
Other administrative and operational expenses		(551,505)	(612,490)
Other expense		(134,464)	(120,716)
Income taxes paid		(149,799)	(541,747)
Cash flows from operating activities before movements in operating assets and liabilities		**6,486,518**	**4,356,124**
Net (increase)/decrease in loans and receivables of banks		(379,871)	-
Net (increase)/decrease in loans and receivables		8,329,393	(14,068,505)
Net (increase)/decrease in other financial assets		(201,810)	(18,362)
Net (increase)/decrease in other assets		(3,696)	22,988
Net increase/(decrease) in due to other banks		(1,035)	1,234
Net increase/(decrease) in customer accounts		12,499,881	10,572,888
Net increase/(decrease) in other financial liabilities		(48,335)	51,055
Net increase/(decrease) in other liabilities		9,996	2,404
Net cash flows from operating activities		**26,691,041**	**919,826**
Cash flows from Investing activities			
Purchase of securities		(3,088,078,802)	(453,031,625)
Proceeds from sale and repayment of investments in securities		3,070,463,782	450,971,785
Proceeds from sales of property plant and equipment		95,249	4,637
Purchase of property plant and equipment		(185,571)	(154,341)
Purchase of intangible assets		(130,885)	(148,340)
Proceeds from sale of investment property		1,441	-
Net cash outflow to investing activities		**(17,834,786)**	**(2,357,884)**

JOINT STOCK COMPANY OTP BANK

Separate Statement of Cash Flows
for the Year Ended 31 December 2022 (Continued)
(In Ukrainian Hryvnias and in thousands)

	Notes	2022	2021
Cash flows from financing activities			
Redemption of other borrowed funds		(17)	(91)
Payments on lease liabilities	9	(60,898)	(168,168)
Dividends paid		-	(1,200,000)
Net cash flows from financing activities		**(60,915)**	**(1,368,259)**
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes		**8,795,340**	**(2,806,317)**
Effect of exchange rate changes on cash and cash equivalents		4,421,800	(1,290,611)
Effect of changes allowance on cash and cash equivalents		(126,713)	(42,016)
Net increase (decrease) in cash and cash equivalents		13,090,427	(4,138,944)
Cash and cash equivalents, at the beginning of the year	**4**	**12,999,554**	**17,138,498**
Cash and cash equivalents, at the end of the year	**4**	**26,089,981**	**12,999,554**

Authorized for issue by management of JOINT STOCK COMPANY OTP Bank and signed on its behalf by:

м. Київ * Україна * АКЦІОНЕРНЕ ТОВАРИСТВО «ОТП БАНК» Ідентифікаційний код 21685166

Volodymyr Mudryi,
Chairman of the Management Board

26 April 2023

Natalia Diuba,
Chief Accountant

26 April 2023

The accompanying notes on pages from 8 to 97 form an integral part of these separate financial statements.

1. General information

JOINT STOCK COMPANY OTP Bank (the "Bank") is a bank with 100% foreign capital. On 1 June 2006, an agreement was signed on the sale of 100% shares in the Bank to Hungary-based Open Joint Stock Company "Central Savings and Commercial Bank" (hereinafter, "OTP Bank Plc." or the "Parent").

Registered address of the Bank and its location is at: 43 Zhylianska Str., Kyiv, 01033, Ukraine.

In its activities, the Bank is governed by the Laws of Ukraine "On Banks and Banking", "On Joint Stock Companies", "On Securities and Stock Market", "On Accounting and Financial Reporting in Ukraine", the Civil Code of Ukraine, the Commercial Code of Ukraine, other effective laws of Ukraine, as well as regulations issued by the National Bank of Ukraine and other government authorities.

Participant (shareholder) of the Bank. As at 31 December 2022 and 2021, the single shareholder of the Bank was represented by OTP Bank Plc. (the "OTP Group"), a legal entity duly incorporated under the laws of Hungary and located at: Nádor u. 16, Budapest, H-1051, Hungary.

The Parent, OTP Bank Plc., is a universal bank providing a full range of banking services to individuals and corporate clients. In Hungary, the OTP Group, one of the leading finance groups in the Hungarian banking market, comprises also large subsidiaries providing services in such spheres as insurance, real estate, factoring, leasing, and management of investment and pension funds.

OTP Bank Plc. was founded in 1949 as a state owned savings bank. In late 1990, the bank was reorganized into a limited liability public company and renamed to National Savings and Commercial Bank. Upon privatization that commenced in 1995, the government share in the bank's equity reduced to one privileged ('golden') share. At present, most of the bank's shareholdings are owned by domestic and foreign investors, both private and institutional.

Corporate organization of the Bank. The Bank performs its activities through a regional network that consists of 73 non-accounting operational divisions (2021: 85 divisions) (with four of them having Regional Directorates registered by the National Bank of Ukraine) and the Regional Directorate for Kyiv Region created within the structure of the Bank's Head Office. As at 31 December 2022, the number of the Bank's employees was 2,213 persons (2021: 2,806 persons).

The Bank's licenses and permissions. Based on the License issued by the National Bank of Ukraine # 191 dated 5 October 2011, the Bank provides a full range of banking services.

In accordance with the effective legislation and based on the respective licenses issued by the National Commission for Securities and Stock Market of Ukraine, the Bank may be involved in depositary activities as a securities custodian and professional trading in securities in stock market: brokerage, dealer, and underwriting activities. The Bank is not involved in any activities in the sphere of material production, trade, and insurance, other than acting as an insurance intermediary. The Bank is a full-fledged member of the Individual Deposit Guarantee Fund.

2. Operating environment

Indicators of Ukraine's economic development in 2022 can only be analyzed through the lens of Russia's military actions in Ukraine, which began on February 24, 2022. The temporary occupation of the territory of the country with significant industrial and agricultural potential, the blockade of the main seaports, the destruction of the infrastructure and the migration of the population within the borders of the country and beyond the borders of the country had an unprecedented impact on economic indicators. As a result, for the year 2022, the decline of the GDP at the level of about 30% and the growth of the inflation indicator at an anticipatory pace were recorded. Ukraine ended 2022 with an inflation rate of 26.6%.

With the transition of the military conflict into a long-term phase of a grueling war, expectations for economic recovery have been postponed from 2023 to later dates, the condition for which remains a significant reduction in the geopolitical risks of military actions on the territory of Ukraine. Russia's unprovoked military aggression on the territory of Ukraine on February 24, 2022 led to significant upheavals in the world economy and international trade against the background of the maximum escalation of geopolitical risks.

The degree of macroeconomic uncertainty in Ukraine in 2022 still remained high due to a significant amount of public debt scheduled for repayment in 2023, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

In order to minimize the negative impact of the military aggression of the Russian Federation against Ukraine and promote the stability of the banking system of Ukraine, the National Bank of Ukraine has introduced a number of measures and restrictions, including: restrictions on cash withdrawals from client's account both in Ukraine and abroad, the possibility of blank refinancing of banks to maintain liquidity without restrictions on the amount for up to 1 year with the possibility of extension for another year, restrictions on foreign currency trading were introduced, the official exchange rate of hryvnia to the U.S. dollar was fixed at the level at which it was in force on February 24, 2022 (on July 21, 2022, the National Bank adjusted the official exchange rate of the hryvnia to the US dollar), restrictions were imposed on cross-border transfers of currency values from Ukraine, etc.

On June 2, 2022, the Board of the National Bank of Ukraine decided to increase the key policy rate from 10.0% to 25.0% per annum effective June 3, 2022. On July 21, 2022, the National Bank of Ukraine adjusted the official exchange rate of the UAH to the USD by 25% to 36.5686 UAH for 1 USD in view of the change in the fundamental characteristics of the Ukrainian economy during the war and the strengthening of the USD against other currencies. The official exchange rate of the UAH to the USD remains fixed.

There have been no significant changes in the Bank's overall strategy due to the conditions of doing business under martial law.

According to the Bank’s estimates, the actual losses of the Bank's property for the period from February 24, 2022 (damage to real estate, office and other equipment) amounted to UAH 2,475 thousand.

2. Operating environment (continued)

In accordance with the analysis of the possible impact of hostilities, the overall increase in allowance for expected credit losses during the 2022 amounted to UAH 5,884,029 thousand.

Starting from the date of the martial law, the Bank incurred UAH 73,714 thousand of operating expenses during 2022, which have been distributed as follows:

Type of expenses	Amount, UAH thousand
Financial aid to employees	44,927
Housing rental costs for employees	12,737
Equipment/equipment costs (non-IT)	10,271
Other	5,779
Total	**73,714**

3. Summary of significant accounting policies

Basis of preparation. These separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

The separate financial statements are presented in Ukrainian Hryvnias and in thousands, unless otherwise indicated.

These separate financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

These separate financial statements are the separate financial statements of JSC OTP Bank. The Bank's subsidiary is not consolidated in these separate financial statements. Investments in subsidiary in the separate financial statements is recorded at the reporting date at their cost, net of impairment. These separate financial statements should be considered together with the consolidated financial statements approved for issue by the Bank's management on 17 August 2022. The consolidated financial statements of JSC OTP Bank prepared under IFRS are available for public use at the link https://www.otpbank.com.ua/about/informations/annual-reports/, and may be obtained at the following address: 43 Zhylianska Str., Kyiv, Ukraine.

Going concern. These separate/[consolidated] financial statements have been prepared assuming that the Bank is a going concern and will continue operations for the foreseeable future. Management believes that the going concern assumption is appropriate for the Bank's separate/[consolidated] financial statements, considering the impact of military actions on the Ukraine's territories (Note 2) on its financial condition and future financial performance. With the outbreak of war, the Bank has activated it Recovery Plan and focused it operations on safeguarding Bank's assets, maintaining adequate capital and liquidity position. The Bank undertook two-fold proactive approach to address expected material deterioration of the credit quality of the portfolio and had started building up loan loss provisions already by end of 1Q 2022 based on region-

3. Summary of significant accounting policies (continued)

industry-rating model, on one side, and had granted payment grace to clients to let them adapt to severely adverse market conditions, on the other side. That allowed the Bank to segment clients based on magnitude of war impact on clients' operation quite well and most of loan provisions were booked already by 2Q 2022. Further accumulation of loan loss reserves was more evenly distributed during 2H 2022, which, on the ground of return of National Bank of Ukraine to active monetary policy leading to significant increase of key policy rate, boosting Bank's net interest income in new high-yielding interest rate environment, allowed the Bank to achieve positive net income figures on a monthly basis and breaking even on year-to-date basis, ending up financial year 2022 with positive contribution to shareholders' equity. The Bank expects these 2022 trends to continue during 2023 and 1Q 2024.

It is expected that further increase of loan loss provisions will sizably be moderate in 2023 because of of localizing the theater of war action and adjustment of economy across the board to the operations under war conditions and under continued energy supply disruptions. The National Bank of Ukraine is expected to maintain 'restrictive' monetary policy through 2023 adjusting it mildly since start of 2024, which ensures continuous high interest risk environment which benefit assets and liabilities structure of the Bank delivering high net interest margins. Already obvious recovery of business activity gauged still back in 2022 will get traction in 2023 contributing to increase of net fee and commission income which will offset fall of net trading margins as market volatility gets subdued. Cost base of operations has been adjusted to 'new normal'. The Bank expects moderate growth in operating expenses, but they will remain very low compared to inflated revenue base. Collectively, these factors add up to visible positive net income result of the Bank in 2023 and through end of 1Q 2024 that ensures further increase of shareholders' equity.

Capital adequacy ratio under the National Bank of Ukraine prudential definition approaches 30% and in any case is well above minimal requirements during 2023 and through end of 1Q 2024 which translates into significant buffer against potential future unexpected negative events.

Liquidity-wise, the Bank has enjoyed the status of 'safe heaven' and despite very challenging environment has increased the stock of client funds and deposits (i.e. due to customer accounts) kept with the Bank. The Bank's portfolios follow market trend of gradual decrease of the portfolio of both corporate and retail loans, which has fostered continuous accumulation of liquid assets. The Bank expects its performing loan portfolio continue to decline and due to customers to increase further during 2023 and 1Q 2024. Loan-to-deposits ratio has notched below 60% for local currency and 40% for foreign currency, quality structure of the liquidity stock is very high being composed mostly of very short-term placement with top notch sovereigns, the National Bank of Ukraine and investment-grade international banks. Prudential liquidity ratios, like LCR and NSFR, are about 2 times above the regulatory limits and in any case is well above minimal requirements for year 2023 and through end of 1Q 2024.

From point of view of business continuity, the Bank has further added to its proven resilience by allocating part of its critical staff to safe locations outside Ukraine, by supplying 50 out of 71 operating branches with alternative power supplies combating consequences of blackouts, and running parallel on premise and cloud IT operations in addition to already existing 2 geographically diversified data processing centers.

3. Summary of significant accounting policies (continued)

Management and shareholder are intending to support further development of the Bank’s operations in Ukraine.

However, there is material uncertainty due to the unpredictable impact of ongoing hostilities in Ukraine that may cast significant doubt on the Bank's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

At the same time, the Bank's Management believes that despite the above factors that may give rise to significant doubts about the Bank's ability to continue as a going concern, forecasts of capital adequacy and liquidity ratios, forecast of the Bank’s operating results and forecast of expected credit losses provide sufficient grounds for preparation these separate financial statements on a going concern basis.

Application of new Standards and amendments thereto. The Bank has adopted the following amendments to Standards and Interpretations applicable for the Bank effective from 1 January 2022, but they have had no significant effect on the Bank:
- Amendments to IFRS 3 “Business Combinations” – References to the Conceptual Framework in IFRS
- Amendments to IAS 16 “Property, Plant, and Equipment” – Proceeds before Intended Use
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts: Cost of fulfilling a contract
- Annual Improvements to IFRS 2018–2020 cycles – Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture”, and IFRS 16 “Leases”.

Significant accounting policies

Interest income and expense.
Interest income and expenses for all financial instruments are recognized in the items of interest income and interest expense in accordance with the separate statement of profit or loss using the effective interest rate method.

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

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

3. Summary of significant accounting policies (continued)

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

Fee and commission income/expense. Fee and commission income and expense include fees, other than those that are an integral part of EIR (see above). The fees, included in the articles «Fee and commission income and expense» of the Bank's separate statement of profit or loss and other comprehensive income include, among other things, fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement, and loan syndication fees. Fee and commission expenses with regards to services are accounted for as the services are received/provided. Commission income for the provision of services during a certain period of time is accrued during such period as the corresponding obligations are fulfilled.

Financial assets. All financial assets are recognized and derecognized on the settlement date (the date of delivery or transfer of the asset) and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

Financial assets that are required to be subsequently measured at amortized cost or fair value, depending on the Bank's business model for managing financial assets and the characteristics of cash flows under contracts from financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is receiving the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both receiving the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (i.e. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

<u>Debt instruments at amortized cost or at FVTOCI</u>. The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset as mentioned above.

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

3. Summary of significant accounting policies (continued)

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

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank defines business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model is independent of management's intentions regarding a particular instrument; therefore, the assessment of the business model is performed at a higher level of aggregation than on the basis of a separate instrument.

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

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called ‘worst case’ or ‘stress case’ scenarios. The Bank takes into account all relevant evidence available, such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

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

3. Summary of significant accounting policies (continued)

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model, other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the option of assigning the asset as such.

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

Reclassifications. If the business model under which the Bank holds financial assets changes (in exceptional cases), the financial assets affected are reclassified. The classification and measurement requirements related to the new category are applied prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy on "Modification and Derecognition of Financial Assets" described below.

Impairment. The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Due from banks;
- Loans to customers;
- Investment securities;
- Other financial assets;
- Financial guarantee contracts issued and loan commitments.

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

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

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

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

3. Summary of significant accounting policies (continued)

- For undrawn loan commitments, the ECLs are the difference between the present value of the difference between the contractual cash flows that are reimbursed to the Bank if the holder of the commitment will use the funds and the cash flows that the Bank expects to receive if credit funds will be used;
- For financial guarantee contracts, the ECLs are the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor, or any other party.

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

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

Evidence of credit-impairment includes observable data about the following events:

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

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings, and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment, including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

3. Summary of significant accounting policies (continued)

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

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

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

- The borrower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example, in corporate lending, a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty, are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather (Stage 2).

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

As a backstop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is transferred in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

The criteria for significant increase in credit risk (Stage 2) and impairment (Stage 3) are disclosed in Note 24.

3. Summary of significant accounting policies (continued)

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

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness), and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

The Bank developed a forbearance policy regarding refusal from enforcing debt collection, which applies to corporate and retail lending.

When a financial asset was modified, the Bank assesses whether this modification results in de-recognition. In accordance with the Bank's policy, a modification results in de-recognition when it gives rise to substantially different terms. For example, changes in the currency of the asset or the introduction of conditions in the contract, which lead to the fact that the contractual cash flows are not payments of only the principal amount and interest.

In the case where the financial asset is derecognized, the loss allowance for ECLs is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECLs, except, where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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

3. Summary of significant accounting policies (continued)

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in de-recognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECLs.

The loss allowance on forborne loans will generally only be measured based on 12-month ECLs when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

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

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

After de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

When a debt instrument that is measured at fair value through other comprehensive income is derecognised, the accumulated gain/loss previously recognized in other comprehensive income is reclassified to profit or loss. For equity investments measured at fair value through other comprehensive income, the accumulated gain/loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings in equity

Write-off. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off.

Recoveries resulting from the Bank's enforcement activities will result in impairment gains. A write-off of loans and debt securities does not lead to discontinued litigation.

3. Summary of significant accounting policies (continued)

Presentation of allowance for ECLs in the separate statement of financial position. Loss allowances for ECLs are presented in the separate statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: carrying amount recognized in the separate statement of financial position equal to fair value.
- For loan commitments and financial guarantee contracts: as a provision.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR, see the "Interest Income and interest expenses" section above.

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

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognized, less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts are presented as provisions in the separate statement of financial position, and the remeasurement is presented in other income.

Performance guarantees are contracts that provide compensation if the other party fails to perform an obligation under the contract. Performance guarantees do not transfer credit risk. The risk of a contract with a performance guarantee is the possibility of non-performance of the obligation under the contract by the other party. Accordingly, performance guarantees are not financial instruments and therefore do not fall under the scope of IFRS 9.

3. Summary of significant accounting policies (continued)

Functional currency. Items included in the separate financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances (the "functional currency"). The functional currency of these separate financial statements is Ukrainian Hryvnia ("UAH"). All amounts are rounded to the nearest UAH thousands, unless otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the separate statement of profit or loss unless required or permitted by any accounting Standard or Interpretation, and as specifically disclosed in the accounting policies of the Bank. In accounting for the transfer of financial assets that do not result in de-recognition of such assets, the Bank does not offset the assets transferred and the underlying liabilities.

Cash and cash equivalents. Cash and balances with the National Bank of Ukraine for the purposes of the separate statement of financial position include cash on hand and balances on correspondent and time deposit accounts with the National Bank of Ukraine. For the purposes of the separate statement of cash flows, cash and cash equivalents include assets which may be converted to the respective cash amount within a short period of time, namely: cash on hand, unrestricted balances on correspondent accounts with the National Bank of Ukraine, due from banks, and repurchase agreements with the original maturity within 90 days, except for guarantee deposits and other restricted balances.

Repurchase and reverse repurchase agreements. Securities sold under repurchase agreements ("repos") are accounted for as collateralized financing transactions, and the securities sold continue to be carried in the separate statement of financial position, while the counterparty's liabilities are included in repayment amounts under the repurchase agreements within deposits and due from banks or current accounts and deposits from customers, as appropriate. The difference between selling and purchase back prices represents the interest expense and is recognized in profit or loss over the term of the purchase back agreement by using the effective interest rate method. Securities purchased under sale back agreements ("reverse repos") are accounted for as amounts receivable under the sale back agreements in due from banks or loans to customers, as appropriate. The difference between purchase and sale prices represents the interest income and is recognized in profit or loss over the term of the sale back agreement by using the effective interest rate method. In the event that assets purchased under reverse repurchase are sold to third parties, liabilities on the return of the securities are accounted for as liabilities and are measured at fair value.

Derivative financial instruments. In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank are not designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value with recognition of changes in fair value through profit or loss at each reporting date. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

3. Summary of significant accounting policies (continued)

Derivatives are included in other assets or other liabilities in the separate statement of financial position.

Taxation. Income tax expense represents the sum of the current and deferred tax expense.

***Current income tax*.** Current income tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the separate statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

***Deferred income tax*.** Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets are not recognized if the temporary difference arises from initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is recognized in the separate statement of profit or loss, except when it relates to items related directly to equity or other statement of comprehensive income, in which case the deferred tax is also recognized within equity or statements of other comprehensive income, respectively.

Ukraine also has various other taxes which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the separate statement of profit or loss.

Investments in subsidiary. Financial investments in subsidiary are stated at the reporting date at cost. Transaction costs related to acquisition of investments are added to the amounts of such investments at the acquisition date.

Financial investments in subsidiary are recorded at the reporting date at cost, less any impairment. The Bank recognizes the impairment of investments in subsidiary as expense of the period when the objective evidence exists that they have suffered impairment losses.

Property and equipment and intangible assets. Property and equipment and intangible assets are carried at historical cost, less any accumulated depreciation or amortization and any recognized impairment losses.

Historical cost of property and equipment items consists of their original cost, including all expenditures directly attributable to the acquisition, delivery, installation, and commissioning of the assets.

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

All intangible assets of the Bank have finite useful lives and include mainly software and licenses for the use of software products.

Depreciation and amortization are charged on the carrying value of property and equipment and intangible assets and are designed to write off assets over their estimated useful economic lives. They are calculated on a straight line basis at the following annual rates:

Buildings and structures	2%-5%
Right of use assets	20%-34%
Vehicles	17%-22%
Furniture and equipment	5%-100%
Other property and equipment	6.25%-100%
Intangible assets	6.25%-50%

At least once a year the Bank is reviewing the useful life term Property and equipment and intangible assets .

An item of property and equipment and intangible asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

At each reporting date the Bank assesses whether there are any impairment indicators. Where carrying value exceeds this estimated recoverable amount, assets are written down to their recoverable amount.

Contingent assets. Contingent assets are not recognized in the separate statement of financial position, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities. Contingent liabilities are not recognized in the separate statement of financial position, but are disclosed unless the possibility of any outflow in settlement is remote.

Provisions for contingent liabilities. Provisions for contingent liabilities are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. Provisions for contingent liabilities are measured in accordance with IAS 37 “Provisions, Contingent Liabilities, and Contingent Assets” and require estimates and judgments on behalf of management.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Share capital and share premium. Contributions to share capital are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium. Gains or losses arising from transactions with a shareholder is recognized in equity as a result of transactions with a shareholder.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Equity reserves. The reserves recorded in equity in the Bank's separate statement of financial position as "other reserves", consist of a revaluation reserve regarding changes in fair value of investments measured at fair value through other comprehensive income.

Payments to employees. Payments to employees (salary related costs, contributions to the state social funds, expense on annual paid vacations, payments of sick leaves, bonuses, and non-cash benefits) are accrued in the year when the respective services were provided by employees. In accordance with the requirements of the Ukrainian legislation, the Bank makes contributions (payments) to the following state social funds: the State Pension Fund of Ukraine, social security, unemployment, and professional accident insurance funds.

Contributions paid to the state social funds are recognized as the Bank's expense when incurred. Payments to employees include amounts accrued for vacations and bonuses. The Bank has no other obligations under post-retirement benefits or other significant compensated benefits requiring accrual.

Foreign currency transactions. The separate financial statements of the Bank are presented in Ukrainian Hryvnias ("UAH"), the currency of the primary economic environment in which the Bank operates (its functional currency). Monetary assets and liabilities denominated in currencies, other than the Bank's functional currency (foreign currencies), are translated into UAH at the official exchange rates prevailing at the reporting date.

The carrying amounts of assets and liabilities denominated in foreign currencies are carried in the separate statement of financial position at the official exchange rates prevailing at the dates of their origination and reassessed using the exchange rates at the reporting dates. Foreign currency denominated income and expense are recorded at the official exchange rates prevailing at the dates of their origination and not on settlement dates and, when a cash-basis method is applied, at the exchange rates on settlement dates. All gains and losses arising as a result of such translation are included in net gain/(loss) on revaluation currency transactions.

Rates of exchange. The official exchange rates as at 31 December 2022 and 2021 used by the Bank in the preparation of the separate financial statements were as follows:

	31 December 2022	**31 December 2021**
UAH/USD 1	36.5686	27.2782
UAH/EUR 1	38.9510	30.9226

Changes in the separate financial statements format. When needed, the comparative data is adjusted to bring them in line with the separate financial statements format for the current year.

Adoption of new and revised IFRS. The Bank has not applied the following new and revised IFRS ahead of schedule that have been issued but are not yet effective:

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Standards/Interpretations	**Effective for the annual accounting periods beginning on or after:**
Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 "Accounting Policies" – Definition of Accounting Estimates	1 January 2023
IFRS 17 "Insurance Contracts"	1 January 2023
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	The effective date to be determined
Amendments to IAS 1 "Presentation of Financial Statements" – Classification of liabilities as short-term or long-term	1 January 2023
Amendments to IAS 12 "Income Taxes" – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback	1 January 2024

The new Standards listed in the table above are expected to have no significant impact on the Bank's separate financial statements.

Areas of significant management judgment and sources of estimation uncertainty. The preparation of the separate financial statements in accordance with IFRS requires that management of the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the reporting date, and the reported amount of income and expenses during the reporting period.

Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Significant assumptions

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets, and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and, so, a prospective change to the classification of those assets.

3. Summary of significant accounting policies (continued)

Significant increase in credit risk. ECLs are measured as an allowance equal to 12-month ECLs for Stage 1 assets, or lifetime ECLs assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Bank applies judgments and takes into account qualitative and quantitative reasonable and supportable forward looking information.

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

Models and assumptions used. The Bank uses various models and assumptions in measuring fair value of financial assets, as well as in estimating ECLs. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Key sources of estimation uncertainty. Listed below are major estimates management has used in the process of the Bank's accounting policies application and that have the most significant impact on the amounts reported in the separate financial statements.

Losses from impairment of loans and advances. The Bank regularly reviews its loans in order to assess their impairment and a significant increase in credit risk.

Estimates of provisions for impairment losses require application of significant judgements. The Bank estimates provisions to cover expected credit losses in order to maintain the provision at the level that in management's opinion will be adequate to cover expected losses in respect of the Bank's credit portfolio. Estimates of provisions for expected credit losses on impaired financial assets are based on evaluation of future cash flows for such assets. Such estimates are carried out based on an individual analysis of future cash flows for all significant impaired assets and statistical techniques considering historical data for remaining assets. In some cases, future cash flows for unimpaired significant assets are also assessed on an individual basis.

An increase or decrease in actual future cash flows (including flows from the realization of collateral) on individually significant impaired loans assessed on an individual basis by 10% would result in a decrease in the provision for such assets by UAH 28,366 thousand/ increase in the provision by UAH 28,671 thousand (2021: decrease / increase by UAH 20,797 thousand).

3. Summary of significant accounting policies (continued)

If the actual and forecast indicators used to estimate expected credit losses on a portfolio basis on unimpaired loans are increased/decreased by 10% (probability of default, loss given default, forecast scenarios and forecast information for each scenario, etc.), the provision would increase by UAH 916,533 thousand (2021: UAH 434,323 thousand) / decrease in the provision by UAH 1,142,152 thousand (2021: decrease / increase by UAH 540,039 thousand).

Probability of default (PD). PD constitutes a key input in measuring ECLs. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

Determining the number, a relevant weight of forward-looking scenarios, and determining the forward-looking information relating to each of the scenarios. In estimating the expected credit losses, the Bank uses reasonable and supportable forward looking information that is based on assumptions regarding future movements of varied economic factors and the way those factors are going to affect each other.

Fair value of buildings and constructions obtained as collateral**.** The Bank determines the cost of buildings and constructions (property) obtained as collateral under lending transactions at fair value. Since, as at 31 December 2022, there was no active real estate market for certain types of buildings and constructions available, in reality, when determining the value of the collateralized property, its assessed value is used which was arrived at mainly through the judgment of professional appraisers, and not from the analysis of market factors. Assessment of the fair value of property requires making judgments and using assumptions regarding comparability of property items and other factors. Considering the above, the allowance for loan impairment may be affected by the assessed property value applied. Accounting estimates related to the property appraisals in the absence of active market-based prices are considered to be a key source of uncertainty due to the fact that: (i) they are highly susceptible to change from period to period and (ii) a potential impact from recognition of such estimates may be material.

Estimation of a borrower's ability to repay the loan by using own funds. The Bank assesses cash flows from business activities by analyzing the borrower's financial statements and assessing financial ratios (such as EBITDA, capital adequacy, etc.).

Fair value of the investments measured at fair value through other comprehensive income. In measuring the fair value of investments, the Bank uses market data to the extent they are available. In the absence of such data, the Bank uses valuation models to determine the fair values of its financial instruments (see details in Note 21).

Lease term and the factor for discounting right-of-use assets and lease liabilities. The estimation of the lease term commonly involves material judgments on behalf of the Bank on the ability to extend the lease, its potential cancellation by a lessee or a lessor, possible termination charges, and other regulatory restrictions regarding the lease extension. The discount factor (or a lessee's incremental borrowing rate) is calculated on the basis of material judgments, since it is estimated as the interest rate that the lessee would agree to pay in order to borrow the funds for a similar period and by using

3. Summary of significant accounting policies (continued)

similar collateral that are required to obtain the asset of the value similar to the right-of-use asset under similar economic conditions.

***Initial recognition of related party transactions*.** In the course of normal business activities, the Bank transacts with its related parties. Financial instruments are initial recognition at fair value. In view of absence of an active market for such transactions, to determine whether the transactions were performed at market or non-market prices, judgments are used. Such judgments are based on pricing for similar financial instruments and transactions therewith, including analysis of effective interest rates and parameters of the arrangements.

***Tax legislation*.** Due to the presence in the Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties, and interest. Tax records remain open to review by the tax authorities for three years.

(In Ukrainian Hryvnias and in thousands)

4. Cash and cash equivalents

	31 December 2022	31 December 2021
Balances with the National Bank of Ukraine	3,806,568	2,608,788
Cash	942,692	1,261,375
Total cash and cash equivalents	**4,749,260**	**3,870,163**

Cash and cash equivalents for the purposes of the separate statement of cash flows comprised the following:

	31 December 2022	31 December 2021
Cash and cash equivalents for the purposes of the Statement of Financial Position	4,749,260	3,870,163
Loans and advances to banks (Note 5), excluding restricted account balances	21,340,721	9,129,391
Total cash and cash equivalents	**26,089,981**	**12,999,554**

As of December 31, 2022, the Bank had balances on correspondent accounts in banks in Russian rubles with carrying value of UAH 379,871 thousand, which are restricted in use in accordance with the current legislation of Ukraine, and therefore excluded from the composition of cash and cash equivalents for the purposes of separate cash flow statement. The Bank estimates that such balances less allowance for expected credit losses will be recovered in full.

5. Loans and advances to banks

Loans and advances to banks comprised:

	31 December 2022	31 December 2021
Correspondent accounts with banks	21,913,593	8,726,887
Loans under repo transactions	-	439,822
Loans to banks	-	6,185
Allowance for expected credit losses	(193,001)	(43,503)
Total loans and advances to banks	**21,720,592**	**9,129,391**

As at 31 December 2022, the Bank had no pledged securities that were used as a collateral under repo agreements. As at 31 December 2021, the Bank received pledged securities with nominal value of UAH 439,822 thousand that were used as a collateral under repo agreements.

As at 31 December 2022 and 2021, in loans and advances to banks there was included accrued interest in the amount of UAH 9,084 thousand and UAH 1,057 thousand, respectively.

As at 31 December 2022, due from one bank for the total amount of UAH 17,760,974 thousand individually exceeded 10% of the Bank's equity. As at 31 December 2021, due from five banks for the total amount of UAH 7,393,099 thousand individually exceeded 10% of the Bank's equity.

As at 31 December 2022 and 2021, the maximum credit risk exposure on loans and advances to banks amounted to UAH 21,720,592 thousand and UAH 9,129,391 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers

Loans and advances to customers comprised:

	31 December 2022	31 December 2021
Loans to legal entities and individual entrepreneurs	31,268,017	31,675,452
Consumer loans to individuals	6,896,626	10,165,908
Mortgage loans to individuals	565,050	842,307
Finance leases receivables	265,556	326,179
Loans under repo transactions	-	848,801
Other loans to individuals	3,253	3,689
Total loans and advances to customers before allowance for expected credit losses	**38,998,502**	**43,862,336**
Less: Allowance for expected credit losses	(9,105,602)	(3,401,878)
Total loans and advances to customers	**29,892,900**	**40,460,458**

As at 31 December 2022, the Bank had no pledged securities that were used as a collateral under repo agreements. As at 31 December 2021, the Bank received pledged securities with nominal value of UAH 848,801 thousand that were used as a collateral under repo agreements.

As at 31 December 2022 and 2021, in loans and advances to customers there was included interest accrued in the amount of UAH 1,129,405 thousand and UAH 629,807 thousand, respectively.

Movements in allowance for expected credit losses are disclosed in Note 24.

Collateral and other instruments to mitigate credit risk. The amount and type of collateral required by the Bank depend on its assessment of the credit risk exposure in respect of a specific counterparty. The Bank has introduced basic acceptability principles for different types of collateral and assessment parameters. Main types of the collateral obtained include:

- For individual lending – residential property and other real estate, motor vehicles;
- For commercial lending – non-residential property, commercial property, other real estate assets, equipment, inventories and rights thereon, cash on deposit accounts.

The Bank’s management monitors the market value of collateral. If required, the Bank re-assesses its value.

Revaluation of the collateral held by the Bank, in the event its value differs significantly from the fair value, is performed by: a) determining the property’s market value by independent certified appraisers or by the Bank’s employees possessing respective qualifications; b) adjusting the value of property groups against items with similar technical characteristics, designation, and operating conditions.

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

The Bank does not hold any collateral which is allowed to sell or re-pledge in the event the collateral owner performs its obligations.

The table below summarizes the proportionate amounts of loans and advances to customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2022	31 December 2021
Guarantees	335,376	237,095
Secured loans:	**17,217,917**	**18,880,694**
Loans secured by other real estate	7,590,648	7,510,584
Loans secured by equipment, inventory, and rights thereon	8,089,159	8,414,332
Loans secured by residential properties	756,733	919,898
Loans secured by cash or guarantee deposits with the Bank	781,377	1,190,090
Loans secured by securities	-	845,790
Unsecured and uncollateralized loans	**21,445,209**	**24,744,547**
Total loans and advances to customers before allowance for expected credit losses	**38,998,502**	**43,862,336**
Less: Allowance for expected credit losses	(9,105,602)	(3,401,878)
Total loans and advances to customers	**29,892,900**	**40,460,458**

The table below summarizes the proportionate amounts of impaired loans and advances to customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2022	31 December 2021
Secured loans:	**2,372,051**	**1,208,733**
Loans secured by other real estate	1,312,210	572,416
Loans secured by residential properties	346,591	417,523
Loans secured by equipment, inventory, and rights thereon	697,246	218,544
Loans secured by cash or guarantee deposits with the Bank	16,004	250
Unsecured and uncollateralized loans	**4,431,813**	**1,532,249**
Total loans and advances to customers before allowance for expected credit losses	**6,803,864**	**2,740,982**
Less: Allowance for expected credit losses	(5,779,718)	(1,890,091)
Total loans and advances to customers	**1,024,146**	**850,891**

As at 31 December 2022 and 2021, almost all corporate loans (over 99% of loans and advances to customers) were granted to the companies operating in Ukraine, which represents a significant geographical concentration in one region (Note 24).

6. Loans and advances to customers (continued)

As at 31 December 2022, the Bank provided loans to three groups of customers in the total amount of UAH 3,939,459 thousand, which separately exceeded 10% of the Bank's equity.

As at 31 December 2022, the Bank provided loans to one group of customers in the total amount of UAH 2,009,906 thousand, which separately exceeded 10% of the Bank's equity.

As at 31 December 2022 and 2021, the maximum credit risk exposure on loans and advances to customers amounted to UAH 29,892,900 thousand and UAH 40,460,458 thousand, respectively. Credit quality of loans and advances to customers is disclosed in Note 24.

During the year ended 31 December 2022, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 512,938 thousand for UAH 25,476 thousand (2021: UAH 1,130,980 thousand for UAH 54,773 thousand). As a result of the transaction, the allowances recognised earlier were written-off for the amount of UAH 487,462 thousand (2021: UAH 1,076,207 thousand) (included in the item "write-off" in the movement of reserves in Note 24).

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

As at 31 December 2022 and 2021, loans and advances to customers included the finance leases receivables disclosed as follows:

	31 December 2022	
	Minimum lease payments	Present value of minimum lease payments
Receivables under finance leases		
Up to 1 year	94,446	74,463
From 1 to 2 years	87,140	71,651
From 2 to 3 years	99,916	95,449
From 3 to 4 years	25,353	23,993
From 4 to 5 years	-	-
Total investments in finance leases	**306,855**	**265,556**
Unearned finance income on finance leases	(41,299)	-
Allowance for expected credit losses on finance leases	(102,769)	(102,769)
Net investments in finance leases	**162,787**	**162,787**
Current finance leases receivable		45,646
Non-current finance leases receivable		117,141
Net investments in finance leases		**162,787**

	31 December 2021	
	Minimum lease payments	Present value of minimum lease payments
Receivables under finance leases		
Up to 1 year	97,346	71,493
From 1 to 2 years	185,495	175,425
From 2 to 3 years	59,679	53,933
From 3 to 4 years	15,493	12,953
From 4 to 5 years	12,980	12,375
Total investments in finance leases	**370,993**	**326,179**
Unearned finance income on finance leases	(44,814)	-
Allowance for expected credit losses on finance leases	(29,998)	(29,998)
Net investments in finance leases	**296,181**	**296,181**
Current finance leases receivable		64,918
Non-current finance leases receivable		231,263
Net investments in finance leases		**296,181**

(In Ukrainian Hryvnias and in thousands)

7. Investments in securities

Investments in securities comprised:

	31 December 2022	31 December 2021
- Debt securities at fair value through other comprehensive income	2,606,594	7,671,679
- Investments at amortized cost	30,245,995	6,956,240
Total investments in securities	**32,852,589**	**14,627,919**

Investments at fair value through other comprehensive income comprised:

	31 December 2022	31 December 2021
Debt securities:		
- Government	2,602,431	7,668,688
- Corporate entities and banks	4,163	2,991
Total investments at fair value through other comprehensive income	**2,606,594**	**7,671,679**

As at 31 December 2022 and 2021, in investments at fair value through other comprehensive income there was included accrued interest in the amount of UAH 39,832 thousand and UAH 178,725 thousand, respectively.

Investments at amortized cost comprised:

	31 December 2022	31 December 2021
Debt securities:		
- Deposit certificates of the National Bank of Ukraine	30,216,427	6,906,494
- Corporate	30,937	49,746
Investments at amortized cost	**30,247,364**	**6,956,240**
Allowance for expected credit losses	(1,369)	-
Total investments at amortized cost	**30,245,995**	**6,956,240**

As at 31 December 2022 and 2021, in investments at amortized cost there was included accrued interest in the amount of UAH 36,709 thousand and UAH 7,745 thousand, respectively.

8. Investments in subsidiaries joint ventures and associates

In January 2019, JSC OTP Bank purchased a 100% interest in the share capital of LLC "OTP Factoring Ukraine", a member of the OTP Group, for UAH 139,143 thousand. Primary activities of LLC "OTP Factoring Ukraine" included rendering services of payment collection.

The charter of LLC "OTP Factoring Ukraine" was registered on 19 October 2009. Primary activities of the Company included rendering factoring services. The Company's founder was OTP Factoring Koveteleskezelo Zrt., a legal entity incorporated under the laws of Hungary and member of OTP Group.

As at 31 December 2022 and 2021, the share capital of LLC "OTP Factoring Ukraine" amounted to UAH 6,227,381 thousand.

(In Ukrainian Hryvnias and in thousands)

9. Intangible assets other than goodwill and fixed assets

Intangible assets comprise the following:

	License	Software	Other Intangible assets	Total
Cost				
31 December 2020	**272,167**	**451,812**	**15**	**723,994**
Additions and internal transfers	28,743	48,980	-	77,723
Disposals	(21)	(18)	-	(39)
31 December 2021	**300,889**	**500,774**	**15**	**801,678**
Additions and internal Transfers	40,316	90,552	17	130,885
Disposals	-	-	-	-
31 December 2022	**341,205**	**591,326**	**32**	**932,563**
Accumulated depreciation and amortization				
31 December 2020	**214,187**	**151,167**	**9**	**365,363**
Charges for the year	19,283	72,269	1	91,553
Eliminated on disposals	(21)	(18)	-	(39)
31 December 2021	**233,449**	**223,418**	**10**	**456,877**
Charges for the year	25,584	87,793	3	113,380
Eliminated on disposals	-	-	-	-
31 December 2022	**259,033**	**311,211**	**13**	**570,257**
Net book value				
31 December 2022	**82,172**	**280,115**	**19**	**362,306**
31 December 2021	**67,440**	**277,356**	**5**	**344,801**

(In Ukrainian Hryvnias and in thousands)

9. Intangible assets other than goodwill and fixed assets (continued)

Fixed assets comprise the following:

	Buildings and other real estate	Furniture and equip-ment	Other non-current tangible assets	Vehicles	Construc-tion in progress	Right-of-use assets	Total
Cost							
31 December 2020	**130,493**	**528,815**	**154,099**	**28,694**	**20,494**	**565,436**	**1,428,031**
Additions and internal Transfers	353	142,381	18,070	4,598	51,819	147,879	365,100
Disposals	-	(30,499)	(3,203)	-	-	(107,247)	(140,949)
Changes from reassessment and modification contracts	-	-	-	-	-	6,578	6,578
31 December 2021	**130,846**	**640,697**	**168,966**	**33,292**	**72,313**	**612,646**	**1,658,760**
Additions and internal Transfers	31	105,943	9,111	-	791	110,631	226,507
Disposals	(18)	(29,624)	(23,289)	(649)	(32,409)	(136,440)	(222,429)
Changes from reassessment and modification contracts	-	-	-	-	-	14,752	14,752
31 December 2022	**130,859**	**717,016**	**154,788**	**32,643**	**40,695**	**601,589**	**1,677,590**
Accumulated depreciation and amortization							
31 December 2020	**29,160**	**321,222**	**121,301**	**15,185**	**-**	**118,751**	**605,619**
Charges for the year	2,747	64,896	15,431	4,040	-	137,635	224,749
Eliminated on disposals	-	(30,459)	(3,203)	-	-	(88,971)	(122,633)
Changes from reassessment and modification contracts						2,542	2,542
31 December 2021	**31,907**	**355,659**	**133,529**	**19,225**	**-**	**169,957**	**710,277**
Charges for the year	2,760	75,085	15,933	4,631	-	129,327	227,736
Eliminated on disposals	(16)	(21,385)	(23,039)	(649)	-	(136,531)	(181,620)
Changes from reassessment and modification contracts	-	-	-	-	-	118,735	118,735
31 December 2022	**34,651**	**409,359**	**126,423**	**23,207**	**-**	**281,488**	**875,128**
Net book value							
31 December 2022	**96,208**	**307,657**	**28,365**	**9,436**	**40,695**	**320,101**	**802,462**
31 December 2021	**98,939**	**285,038**	**35,437**	**14,067**	**72,313**	**442,689**	**948,483**

(In Ukrainian Hryvnias and in thousands)

9. Intangible assets other than goodwill and fixed assets (continued)

As at 31 December 2022 and 2021, in property and equipment and intangible assets there were included fully depreciated property and equipment and amortized intangible assets in the amount of UAH 494,277 thousand and UAH 462,763 thousand, respectively.

Right-of-use assets

During 2022 and 2021, right-of-use assets had the following impact on the Bank's financial result:

	2022	2021
Amounts recognized in profit or loss		
Depreciation of right-of-use assets	(129,327)	(137,635)
Operating expense on leases	(8,160)	(11,135)
Interest expense on lease liabilities	(61,437)	(36,192)
Gain on subleases of right-of-use assets	419	490
Total effect on financial performance	**(198,505)**	**(184,472)**

As at 31 December 2022 and 2021, the average lease period of right-of-use assets was 35 months and 37 months, respectively.

As at 31 December 2022 and 2021, the Bank had no lease contracts with option to purchase of assets at their nominal values.

10. Other financial and non-financial assets

Other financial assets comprised:

	31 December 2022	31 December 2021
Other financial assets		
Accounts receivable and settlement/transit accounts	320,360	110,420
Income accrued	31,335	43,147
Other financial assets before allowance for expected credit losses	**351,695**	**153,567**
Less: Allowance for expected credit losses	(21,269)	(34,586)
Total other financial assets	**330,426**	**118,981**

(In Ukrainian Hryvnias and in thousands)

10. Other financial and non-financial assets (continued)

Other non-financial assets comprised:

	31 December 2022	31 December 2021
Other non-financial assets		
Prepaid expenses	20,710	33,109
Inventories	17,063	17,551
Prepayments for property and equipment and intangible assets	23,982	11,823
Properties repossessed by the Bank as a collateral holder	4,442	10,104
Precious metals	-	5,553
Taxes recoverable and prepaid, other than income taxes	484	2,512
Other advances and prepayments	71	222
Other non-financial assets before provision for impairment	**66,752**	**80,874**
Less: Provision for impairment	(4,184)	(4,177)
Total other non-financial assets	**62,568**	**76,697**

11. Customer accounts

Customer accounts comprised:

	31 December 2022	31 December 2021
Current accounts and deposits repayable on demand	69,623,921	50,554,605
Term deposits	8,112,539	6,510,392
Total customer accounts	**77,736,460**	**57,064,997**

As at 31 December 2022 and 2021, in customer accounts there was included interest accrued in the amount of UAH 59,150 thousand and UAH 47,721 thousand, respectively.

As at 31 December 2022 and 2021, customer accounts amounting to UAH 7,957,402 thousand (10.2%) and UAH 5,816,160 thousand (10.2%) were due to eleven customers and ten customers, respectively, which represents a significant concentration.

As at 31 December 2022 and 2021, customer accounts amounting to UAH 1,047,316 thousand and UAH 1,438,885 thousand, respectively, were used as a collateral to secure for loans granted to customers, guarantees and letters of credit issued, and other transactions related to contingent liabilities.

(In Ukrainian Hryvnias and in thousands)

12. Other financial and non-financial liabilities

Other financial liabilities comprised:

	31 December 2022	31 December 2021
Other financial liabilities		
Lease liabilities	442,431	450,168
Accruals for unused vacations and bonuses	324,966	349,464
Transit and settlement accounts	261,780	266,520
Payables to other counterparties	26,558	19,047
Payables on property and equipment	855	2,496
Other	13,890	18,581
Total other financial liabilities	**1,070,480**	**1,106,276**

Lease liabilities

Movements of lease liabilities for the years 2022 and 2021 were as follows:

	2022	2021
As at the beginning of the period	**450,168**	**450,684**
Increase in lease liabilities	121,150	143,733
Interest accrued	61,437	36,192
Write-off of lease liabilities	(150,845)	(20,588)
Repayment of lease liabilities	(60,898)	(168,168)
Effect of foreign exchange fluctuations	21,419	8,315
Total lease liabilities as at the end of the period	**442,431**	**450,168**

Lease liabilities on the leases dependent on foreign exchange rate fluctuations at each reporting date are accounted for in relevant currencies. As at 31 December 2022, foreign currency denominated lease liabilities amounted to USD 8,773 thousand. As at 31 December 2021, foreign currency denominated lease liabilities amounted to USD 11,662 thousand.

The maturity profile of lease liabilities was as follows:

	31 December 2022	31 December 2021
Up to one year	130,066	117,157
More than one year, but less than two years	79,900	84,589
More than two years, but less than three years	37,748	46,593
More than three years, but less than four years	26,898	30,871
More than four years, but less than five years	25,441	26,499
More than five years	142,378	144,459
Total lease liabilities	**442,431**	**450,168**

(In Ukrainian Hryvnias and in thousands)

12. Other financial and non-financial liabilities (continued)

Other non-financial liabilities comprised:

	31 December 2022	31 December 2021
Other non-financial liabilities		
Deferred income	80,083	92,094
Payables on contributions to Individual Guarantee Deposit Fund	49,386	37,658
Taxes payable, other than income taxes	7,685	8,035
Other	10	1
Total other non-financial liabilities	**137,164**	**137,788**

13. Net interest income (net interest expense)

Net interest income (net interest expense), comprised:

	2022	2021
Interest income		
Interest income calculated by using the effective interest rate:		
Interest income on loans to customers	5,781,346	4,839,910
Interest income on investments in securities at amortized cost	2,423,049	295,777
Interest income on investments in securities at fair value through other comprehensive income	484,447	554,313
Interest income on reverse repurchase agreements	37,823	44,138
Interest income on due from banks	47,730	6,491
Total interest income calculated by using the effective interest rate	**8,774,395**	**5,740,629**
Other interest income:		
Interest income on finance leases	13,433	29,667
Total interest income	**8,787,828**	**5,770,296**
Interest expense		
Interest expense calculated by using the effective interest rate:		
Interest expense on customer accounts	(1,856,026)	(1,051,679)
Interest expense on due to banks and other financial institutions	(38,750)	(279)
Interest expense on financial assets with a negative interest rate	(25,233)	(40,917)
Total interest expense calculated by using the effective interest rate	**(1,920,009)**	**(1,092,875)**
Other interest expense:		
Interest expense on lease liabilities	(61,437)	(36,192)
Total interest expense	**(1,981,446)**	**(1,129,067)**
Net interest income before allowance for expected credit losses on interest-bearing assets	**6,806,382**	**4,641,229**

(In Ukrainian Hryvnias and in thousands)

14. Fee and commission income and expense

Fee and commission income and expense comprised:

	2022	2021
Fee and commission income		
Settlement and cash operations with clients	977,474	981,744
Plastic cards operations	240,265	394,648
Foreign currency transactions	364,135	391,497
Guarantees issued	80,359	90,408
Income on insurance	43,817	87,289
Other income	79,391	44,363
Total fee and commission income	**1,785,441**	**1,989,949**
Fee and commission expense		
Plastic cards operations	(537,799)	(529,256)
Settlements	(87,418)	(91,131)
Agent fees	(14,271)	(40,428)
Other expense	(24,299)	(39,910)
Total fee and commission expense	**(663,787)**	**(700,725)**

15. Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9

	Notes	2022	2021
Impairment gain/(loss) on loans and advances to banks	24	(126,713)	(42,016)
Impairment gain/(loss) on loans and advances to customers	24	(5,574,378)	(583,222)
Impairment gain/(loss) on investments in securities	24	21,426	(131,663)
Impairment gain/(loss) on other financial assets	24	13,489	(4,970)
Impairment gain/(loss) on issued financial guarantees and similar contractual obligations	24	7,903	(27,792)
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9		**(5,658,273)**	**(789,663)**

(In Ukrainian Hryvnias and in thousands)

16. Operational expenses

Operating expense comprised:

	2022	2021
Expenses for payments to employees		
Staff costs	1,188,705	1,123,553
Salary related taxes and charges	219,449	205,056
Total expenses for payments to employees	**1,408,154**	**1,328,609**
Depreciation and amortization	341,116	316,322
Other administrative and operating expense		
Property and equipment maintenance	195,213	159,964
Contributions to Individual Deposit Guarantee Fund	178,818	147,080
Expense on customer attractions	7,646	26,832
Software right-of-use costs	-	20,572
Advertising costs	10,193	77,441
Professional services	48,526	70,302
Communication services	76,396	55,197
Royalty costs	13,282	37,449
Operating leases	8,160	11,135
Security expenses	13,494	12,554
Taxes, other than income tax	13,571	11,100
Total other administrative and operating expense	**565,299**	**629,626**
Total operating expense	**2,314,569**	**2,274,557**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense

Temporary differences as at 31 December 2022 were as follows:

	31 December 2021	Recognised in Profit&Loss	Recognised directly in equity	31 December 2022
Temporary differences:				
Allowance for expected credit losses on guarantees and other commitments	53,803	494	-	54,297
Property and equipment and intangible assets	15,938	124	-	16,062
Losses on sale of securities	10,811	(10,811)	-	-
Other temporary differences	594	608	-	1,202
Deferred income tax assets	**81,146**	**(9,585)**	**-**	**71,561**
Revaluation of securities	(12,299)	-	6,145	(6,154)
Deferred tax liabilities	**(12,299)**	**-**	**6,145**	**(6,154)**
Net deferred income tax assets	**68,847**	**(9,585)**	**6,145**	**65,407**

Temporary differences as at 31 December 2021 were as follows:

	31 December 2020	Recognised in Profit&Loss	Recognised directly in equity	31 December 2021
Temporary differences:				
Allowance for expected credit losses on guarantees and other commitments	50,307	3,496	-	53,803
Property and equipment and intangible assets	15,787	151	-	15,938
Losses on sale of securities	9,849	962	-	10,811
Other temporary differences	601	(7)	-	594
Deferred income tax assets	**76,544**	**4,602**	**-**	**81,146**
Revaluation of securities	-	-	(12,299)	(12,299)
Deferred tax liabilities	**-**	**-**	**(12,299)**	**(12,299)**
Net deferred income tax assets	**76,544**	**4 602**	**(12 299)**	**68 847**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense (continued)

The income tax rate applicable for the years ended 31 December 2022 and 2021 was 18%.

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2022 and 2021 was as follows:

	2022	2021
Profit before income tax	**726,411**	**3,350,731**
Tax at the statutory tax rate	130,754	603,132
Adjustments of accounting profit:		
Impairment of repossessed real estate	-	1,223
Adjustments of current income tax	(1,497)	201
Tax effect of other permanent differences	48	1,064
Income tax expense	**129,305**	**605,620**
Current income tax expense	119,720	610,222
Deferred income tax (benefit)/expense	9,585	(4,602)
Income tax expense	**129,305**	**605,620**
Deferred income tax assets		
At the beginning of the period	**68,847**	**76,544**
Deferred income tax benefit/(expense)	(9,585)	4,602
Deferred tax related to change of fair value correction of securities at fair value through other comprehensive income	6,145	(12,299)
At the end of the period	**65,407**	**68,847**

18. Share capital, share premium, and other additional capital

As at 31 December 2022 and 2021, authorized and paid-in share capital consisted of 499,238 ordinary shares at par value of UAH 12,390.93 each.

All shares have been issued in a non-certificated form and are owned by one shareholder of the Bank – OTP Bank Plc. – a legal entity under the laws of Hungary (hereinafter “the Parent”).

The Bank has not issued any bearer and privileged shares.

The Bank’s shareholders are entitled to:

(i) Participate in the management of the Bank in accordance with the procedures specified in the Bank’s Charter and internal regulations of the Bank;

(ii) Participate in distribution of the Bank’s profits and obtain its interest (dividends). The right to profits (dividends) is proportionate to the number of shares owned by respective shareholder at the beginning of dividends distribution;

18. Share capital, share premium, and other additional capital (continued)

(iii) Receive complete and reliable information about the Bank's activities;

(iv) Use the shares held by them in accordance with the procedures determined by the effective legislation of Ukraine;

(v) Purchase preemptively the shares additionally issued by the Bank pro rata to the shareholders' interest in the Bank's share capital in the event the Bank conducts private placement of its shares;

(vi) Propose on any issues included to the agenda of the Bank's general shareholders' meetings;

(vii) In the event of the Bank's liquidation, receive a portion of the property value pro rata to their shareholdings.

The Bank's distributable profits to shareholders are limited to the amount of its reserves as disclosed in its separate financial statements in accordance with the statutory requirements to accounting and reporting of banking institutions in Ukraine. Non-distributable reserves are represented by a reserve fund which is created as required by the effective legislation and statutory regulations of the National Bank of Ukraine in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The Bank's reserve is created upon the shareholders' decision in the amount envisaged by the law, provided the contributions amount to at least 5 percent of the Bank's net profits. As at 31 December 2021 non-distributable reserves (reserve funds) amounted to UAH 481,875 thousand. In September 2022, 5% of the profit was directed to increase the statutory funds, and as at December 31, 2022, the reserve funds amounted to UAH 619,131 thousand.

As at 31 December 2022 and 2021, the share premium totaling to UAH 405,075 thousand represented an excess of contributions received over the nominal value of the shares issued.

In 2022 and 2021, all ordinary shares were ranked equally and carried one vote.

To comply with the requirements of the National Bank of Ukraine, in 2009, the Bank obtained a guarantee issued by the Parent. The guarantee was recognized by the Bank in the amount of UAH 1,632,338 thousand based on the guarantee agreement dated 23 December 2009 entered into with OTP Bank Plc.

In 2010, the guarantee agreement was canceled and OTP Bank Plc. paid the amount of USD 155,255 thousand to reimburse for it, which was accounted for in other additional capital in the amount of UAH 1,236,294 thousand.

During year 2022 the Bank paid no dividends to its shareholder.

During year 2021 the Bank paid dividends as allocation of the annual profit of OTP Bank JSC for year 2020 in the amount of UAH 1,200,000 thousand to its shareholder.

(In Ukrainian Hryvnias and in thousands)

19. Contingencies and contractual commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risks in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the separate statement of financial position.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral, or security are impaired, is represented by the contractual amounts of those instruments.

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

As of 31 December 2022 and 2021, the nominal or contractual amounts of contingent liabilities were as follows:

	31 December 2022	31 December 2021
Contingent liabilities and loan commitments		
Guarantees issued and similar commitments:	2,958,572	3,295,946
Financial guarantees issued	2,494,175	2,801,439
Import letters of credit	427,066	408,883
Avals	37,331	85,624
Undrawn loan commitments	4,097,126	9,964,809
Contingent liabilities and loan commitments	**7,055,698**	**13,260,755**

As at 31 December 2022 and 2021, non-financial guarantees (performance guarantees) amounted to UAH 99,345 thousand and UAH 194,961 thousand, respectively.

As at 31 December 2022 and 2021, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines amounted to UAH 6,758,330 thousand and UAH 12,966,346 thousand, respectively.

The movement of provisions for expected credit losses on loan commitments is disclosed in Note 24.

Legal proceedings. From time to time and in the normal course of business, customers and counterparties file claims to the Bank. The Bank's management believes that, as a result of legal proceedings, the Bank will not incur significant losses.

Taxation. The Ukrainian economy is characterized by the increased tax burden and unpredictability of the tax system. Banks act not only as taxpayers, but also perform functions of tax agents and intermediaries between taxpayers and the state, which increases tax risks.

Imperfect rule-making technique may lead to imposition of additional tax liabilities, fines, and penalties. The Bank's management, based on its interpretation of the tax legislation, believes it has accrued all effective taxes.

As at 31 December 2022 and 2021, the Bank had no contingent obligations related to tax issues and no opened or pending legal cases in part of potential imposition of penalty sanctions.

(In Ukrainian Hryvnias and in thousands)

20. Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Bank had the following balances outstanding as at 31 December 2022 and 2021 with its related parties:

	31 December 2022		31 December 2021	
	Related party balances	**Total category as per separate financial statements caption**	**Related party balances**	**Total category as per separate financial statements caption**
Loans and advances to banks:	18,146,736	21,720,592	390,462	9,129,391
- Parent (interest rates from 0% to 0.19%)	17,760,974	-	124,561	-
- Entities under common control or significant influence (interest rates from 0% to 0.1%)	385,762	-	265,901	-
Loans and advances to customers before allowance for expected credit losses:	1,559,383	38,998,502	2,024,027	43,862,336
- Entities under common control or significant influence (interest rates from 12.22% to 18% in UAH)	1,558,340	-	2,022,427	-
- Key management personnel	1,043	-	1,600	-
Allowance for expected credit losses on loans and advances to customers:	(36,524)	(9,105,602)	(47,957)	(3,401,878)
- Entities under common control or significant influence	(36,501)	-	(47,711)	-
- Key management personnel	(23)	-	(246)	-
Investment in subsidiary:	139,143	139,143	139,143	139,143
- Subsidiary	139,143	-	139,143	-
Other financial assets:	4,840	330,426	7,313	118,981
- Parent	4,835	-	7,167	-
- Entities under common control or significant influence	5	-	146	-
Due to others banks:	231	231	127	1,225
- Parent	229	-	125	-
- Entities under common control or significant influence	2	-	2	-
Customer accounts:	1,141,795	77,736,460	811,838	57,064,997
- Entities under common control or significant influence (interest rates 0% in USD, 0% in EURO and from 0% to 12% in UAH)	392,196	-	134,846	-
- Key management personnel	78,039	-	39,448	-
- Subsidiary (interest rates from 0% to 4,5% in UAH)	671,560	-	637,544	-
Other financial liabilities:	45,178	1,070,480	40,928	1,106,276
- Parent	16,526	-	10,647	-
- Key management personnel	28,652	-	30,281	-
Undrawn loan commitments:	1,445	4,097,126	1,143	9,964,809
- Key management personnel	1,445	-	1,143	-

(In Ukrainian Hryvnias and in thousands)

20. Related party transactions (continued)

Included in the separate statement of profit or loss for the years ended 31 December 2022 and 2021 were the following amounts which arose due to the transactions with related parties:

	2022		2021	
	Related party transactions	**Total category as per separate financial statements caption**	**Related party transactions**	**Total category as per separate financial statements caption**
Interest income:	249,045	8,787,828	117,905	5,770,296
- Parent	12,930	-	588	-
- Entities under common control or significant influence	235,910	-	117,239	-
- Key management personnel	205	-	78	-
Interest expense:	(52,051)	(1,981,446)	(14,007)	(1,129,067)
- Parent	(23,696)		-	
- Entities under common control or significant influence	(17,502)	-	(1,552)	-
- Key management personnel	(976)	-	(731)	-
- Subsidiary	(9,877)	-	(11,724)	-
Fee and commission income:	2,407	1,785,441	4,061	1,989,949
- Parent	336	-	142	-
- Entities under common control or significant influence	1,923	-	3,749	-
- Subsidiary	148	-	170	-
Fee and commission expense:	(543)	(663,787)	(415)	(700,725)
- Parent	(508)	-	(263)	-
- Entities under common control or significant influence	(35)	-	(152)	-
Net increase (decrease) from foreign exchange translation:	3,498,058	70,226	(1,078,477)	(202 227)
- Parent	3,385,568	-	(1,069,531)	-
- Entities under common control or significant influence	112,490	-	(8,946)	-
Net increase (decrease) from financial instruments at fair value through profit or loss:	142,066	100,893	228,190	231,419
- Parent	142,066	-	228,190	-
		-		-
Impairment gain/(loss) and reversal of impairment loss determined in accordance with IFRS9:	(137,587)	(5,658,273)	(34,710)	(789,663)
- Parent	(145,502)		(282)	
- Entities under common control or significant influence	7,692	-	(34,194)	-
- Key management personnel	223	-	(234)	-
Other income:	2,233	128,973	1,719	102,884
- Entities under common control or significant influence	1,885	-	1,321	-
- Subsidiary	348	-	398	-
Other administrative and operational expenses:	(45,925)	(565,299)	(42,557)	(629,626)
- Parent	(45,881)	-	(20,867)	-
- Entities under common control or significant influence	-	-	(21,131)	-
- Subsidiary	(44)	-	(559)	-

(In Ukrainian Hryvnias and in thousands)

20. Related party transactions (continued)

During the years ended 31 December 2022 and 2021, remuneration to key management personnel comprised short-term benefits in the amount of UAH 83,048 thousand and UAH 86,145 thousand, respectively.

Financial instruments recognized as a result of transactions with related parties are initially recognized at fair value by using management judgments.

21. Fair value of financial instruments

IFRS define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis. Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s), and inputs used):

Financial assets/ financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key inputs**
	31 December 2022	**31 December 2021**		
1) Derivative financial assets	3,246	8,376	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates discounted at a rate that reflects the credit risk of various counterparties
2) Investments measured at fair value through other comprehensive income	2,517	3,018,786	Level 1	Quoted deal prices in an active market
3) Investments measured at fair value through other comprehensive income	4,163	2,991	Level 2	Discounted cash flows. Future cash flows are estimated based on the inputs that are observable, either directly or indirectly, and the estimates use one or more observable quoted prices for orderly transactions in the markets that are not considered active

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21. Fair value of financial instruments (continued)

Financial assets/ financial liabilities	Fair value as at 31 December 2022	31 December 2021	Fair value hierarchy	Valuation technique(s) and key inputs
3) Investments measured at fair value through other comprehensive income	2,599,914	4,649,902	Level 3	Discounted cash flows. Future cash flows are estimated based on observable market data, as well as unobservable market data. Unobservable data include curve of coupon-free yield domestic government loan bonds denominated in euro and denominated in dollars, calculated by the National Bank of Ukraine and published on the official website.
4) Derivative financial liabilities	9,233	4	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contractual forward rates discounted at a rate that reflects the credit risk of various counterparties

Securities are transferred between levels of fair value hierarchy when methods of their valuation change. Transfers from Level 1 occur when, as at the reporting date, there are no market quotations that were available as at the previous reporting date. In addition, if valuation as at the reporting date uses the present value of cash flows based on the observable market data, then such securities are included into Level 2 of the fair value hierarchy. In the event the information used differs from the observable market data, then such securities are included into Level 3 of the fair value hierarchy. Transfers from Levels 2 and 3 to Level 1 take place when, as at the reporting date, the securities have market prices in an active market, which were not available as at the previous reporting date.

During 2022, there were transfers between levels of fair value hierarchy of securities measured at fair value through other comprehensive income from the 1st to the 3rd level in the amount of UAH 740,953 thousand. Transferring between levels of the hierarchy is due to the absence of market quotations from the active market as of the end of 2022.

During 2021, there were transfers between levels of fair value hierarchy of securities measured at fair value through other comprehensive income from the 2nd to the 3rd level in the amount of UAH 590,739 thousand.

(In Ukrainian Hryvnias and in thousands)

21. Fair value of financial instruments (continued)

The table below summarizes movements in assets and liabilities of Level 3 measured at fair value:

	2022
Investments measured at fair value through other comprehensive income	
As at 31 December 2021	**4,649,902**
Income/(expense) for the period recognized in profit or loss	(27,621)
Purchases	52,880
Disposals or sales	(3,215,852)
Transfers	740,953
Other	399,652
As at 31 December 2022	**2,599,914**

	2021
Investments measured at fair value through other comprehensive income	
As at 31 December 2020	**263,731**
Income/(expense) for the period recognized in profit or loss	3,106
Purchases	4,059,363
Disposals or sales	(257,390)
Transfers	590,739
Other	(9,647)
As at 31 December 2021	**4,649,902**

An analysis of the sensitivity of the assessment of the fair value of financial instruments to changes in discount rates are disclosed in Note 24.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The table below compares the fair value and carrying amount of classes of financial instruments that are not recognized at fair value in the statement of financial position. The table does not include the fair value of non-financial assets and non-financial liabilities.

(In Ukrainian Hryvnias and in thousands)

21. Fair value of financial instruments (continued)

		31 December 2022		31 December 2021	
	Levels of hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	1	4,749,260	4,749,260	3,870,163	3,870,163
Loans and advances to banks	2	21,720,592	21,720,592	9,129,391	9,129,391
Loans and advances to customers	3	29,892,900	29,874,112	40,460,458	40,473,343
Other financial assets	3	330,426	330,426	118,981	118,981
Total financial assets		**56,693,178**	**56,674,390**	**53,578,993**	**53,591,878**
LIABILITIES					
Due to others banks	2	231	231	1,225	1,225
Customer accounts	3	77,736,460	77,743,343	57,064,997	57,066,918
Other borrowed funds	3	159	159	176	176
Provisions for loan commitments and financial guarantee contracts	3	301,643	301,643	298,908	298,908
Other financial liabilities	3	1,070,480	1,070,480	1,106,276	1,106,276
Total financial liabilities		**79,108,973**	**79,115,856**	**58,471,582**	**58,473,503**

In determining the level of the fair value hierarchy of financial assets and financial liabilities that are not measured at fair value, the Bank uses the following valuation methods:
- Level 1: market quotations (without adjustments) in active markets for identical assets and liabilities;
- Level 2: valuation methods in which all inputs that materially affect fair value are directly or indirectly observable in the open market;
- Level 3: valuation methods in which all inputs that materially affect fair value are not based on observable market data.

The fair values of foreign currency denominated loans to individuals cannot be measured reliably, since, due to the regulatory limitations introduced by the National Bank of Ukraine, the market for those financial instruments during 2022 and 2021 was not available, and it is impracticable to obtain sufficient market data or apply any other valuation technique to such instruments. As at 31 December 2022 and 2021, the carrying amounts of such loans were UAH 15,104 thousand and UAH 13,637 thousand, respectively.

22. Capital management

The Bank’s objectives when managing capital are to ensure the amount of capital sufficient to cover all significant risks and comply with the capital requirements set by the National Bank of Ukraine and to the Bank’s ability to continue as a going concern for reliable implementation of strategy and business plan both in normal and in a stressful period, taking into account all significant risks inherent in the Bank.

The Bank’s policies in respect of the capital management include determining the effective level of its capital that ensure its long-term value for the shareholder, i.e. establishing objectives and rules of the Bank’s capital management in order to optimize the shareholder’ requirements to their investments subject to the minimum capital requirements set by the NBU.

(In Ukrainian Hryvnias and in thousands)

22. Capital management (continued)

The function of capital management belongs to the Department of Capital Calculation, Recovery and Credit Portfolio Analysis of the Parent Bank (THHEFO). In turn, The Assets and Liabilities Management and Treasury Controlling Department plans capital adequacy in accordance with local regulatory requirements and makes appropriate proposals. Proposals for capital increase, dividend payments and others are submitted by the department to the Assets and Liabilities Management Committee of the Bank to which the Bank's Management Board delegates authority to consider relevant issues, with further appeal to the Assets and Liabilities Management Committee of the Parent Bank. Final decisions are made by the Supervisory Board and shareholders of the Bank.

The capital structure of the Bank consists of instruments and equity, comprising share capital, reserves, and other additional capital as disclosed in the separate statement of changes in equity.

The table below demonstrates the regulatory capital based on the Bank’s reports prepared under regulatory requirements of the NBU:

Regulatory capital composition:

	31 December 2022	**31 December 2021**
Tier 1 capital	7,261,678	7,133,668
Additional capital	3,754,538	3,419,188
Deductions	(139,143)	(139,143)
Total regulatory capital	**10,877,073**	**10,413,713**

In accordance with the existing requirements to capital set by the National Bank of Ukraine, the Bank should maintain the minimum level of regulatory capital of UAH 200,000 thousand (ratio H1) and the ratio of regulatory capital to the risk weighted assets (capital adequacy ratio) at the level in excess of the obligatory minimum value of 10% (ratio H2). Also it is required to comply Tier 1 adequacy ratio, which defined as Tier 1 capital to the risk weighted assets at the level in excess of the obligatory minimum value of 7% (ratio H3). At present day, within the calculation of the minimum capital requirements, banks must keep capital only to cover credit risk and partially - market risk (in terms of open currency position) and operational risk.

Due to systemically importance status, Bank must meet tougher requirements designed to ensure the additional safety margin. In addition to the statutory value of capital adequacy, Bank should maintain conservation buffer and systematic importance buffer, which will take effect from the moment of the NBU corresponding decision.

As at 31 December 2022 and 2021, the Bank complied with the statutory requirements set by the National Bank of Ukraine.

(In Ukrainian Hryvnias and in thousands)

23. Maturity analysis of assets and liabilities.

The table below presents an analysis of assets and liabilities by maturity or expected repayment. Information on the maturity analysis of financial liabilities, which indicates the total amount of remaining payments under contracts are disclosed in Note 24.

Maturity analysis shows the historical stability of current accounts.

	31 December 2022		
	Within one year	**More than one year**	**Total**
ASSETS			
Cash and cash equivalents	4,749,260	-	4,749,260
Loans and advances to banks	21,340,721	379,871	21,720,592
Loans and advances to customers	24,550,361	5,342,539	29,892,900
Investments in securities	32,623,164	229,425	32,852,589
Derivative financial assets	3,246	-	3,246
Investments in subsidiaries joint ventures and associates	-	139,143	139,143
Investment property	-	24,634	24,634
Current tax assets	-	5	5
Deferred tax assets	-	65,407	65,407
Intangible assets other than goodwill	-	362,306	362,306
Property plant and equipment	-	802,462	802,462
Other financial assets	330,426	-	330,426
Other nonfinancial assets	62,568	-	62,568
Total assets	**83,659,746**	**7,345,792**	**91,005,538**
LIABILITIES			
Due to others banks	231	-	231
Customer accounts	16,996,681	60,739,779	77,736,460
Derivative financial liabilities	9,233	-	9,233
Other borrowed funds	18	141	159
Provisions for loan commitments and financial guarantee contracts	301,643	-	301,643
Other financial liabilities	1,070,480	-	1,070,480
Other nonfinancial liabilities	137,164	-	137,164
Current tax liabilities	119,500	-	119,500
Total liabilities	**18,634,950**	**60,739,920**	**79,374,870**
Net amount	**65,024,796**	**(53,394,128)**	**11,630,668**

(In Ukrainian Hryvnias and in thousands)

23. Maturity analysis of assets and liabilities (continued)

	31 December 2021		
	Within one year	**More than one year**	**Total**
ASSETS			
Cash and cash equivalents	3,870,163	-	3,870,163
Loans and advances to banks	9,129,391	-	9,129,391
Loans and advances to customers	30,057,301	10,403,157	40,460,458
Investments in securities	11,644,510	2,983,409	14,627,919
Derivative financial assets	8,376	-	8,376
Investments in subsidiaries joint ventures and associates	-	139,143	139,143
Investment property	-	26,075	26,075
Current tax assets	-	110	110
Deferred tax assets	-	68,847	68,847
Intangible assets other than goodwill	-	344,801	344,801
Property plant and equipment	-	948,483	948,483
Other financial assets	118,981	-	118,981
Other nonfinancial assets	76,697	-	76,697
Total assets	**54,905,419**	**14,914,025**	**69,819,444**
LIABILITIES			
Due to others banks	1,225	-	1,225
Customer accounts	12,616,862	44,448,135	57,064,997
Derivative financial liabilities	4	-	4
Other borrowed funds	176	-	176
Provisions for loan commitments and financial guarantee contracts	298,908	-	298,908
Other financial liabilities	1,106,276	-	1,106,276
Other nonfinancial liabilities	137,788	-	137,788
Current tax liabilities	149,689	-	149,689
Total liabilities	**14,310,928**	**44,448,135**	**58,759,063**
Net amount	**40,594,491**	**(29,534,110)**	**11,060,381**

24. Risk management policies

Management of risks is fundamental to the Bank’s banking activities and is an essential element of the Bank’s operations. The main risks inherent to the Bank’s operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives.

24. Risk management policies (continued)

Credit risk. The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk management and monitoring is performed, within set limits of authority, by Risk Management Directorate, Credit Committees, and other collective decision-making committees, and the Bank's Management Board.

Before any application is reviewed by Credit Committee, all recommendations on credit processes (borrower's limits approved, amendments made to loan agreements, etc.) are reviewed and approved by responsible division within Directorate of integrated risks management or Department for credit risk control of retail business. Daily risk management is performed by an appropriate department within Risk Management structure, by reviewing and extending financing limits, calculating and revising credit ratings, as well as setting up and maintaining automated systems for reviewing and verifying loan applications.

The Bank structures levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to borrowers, products, and other segments. Limits on the structure of the loan portfolio are set by the Bank's Risk Appetite Declaration, Credit Policies and the relevant Credit Risk Control Department. Comparison of actual amounts with established limits occurs on a regular basis determined for each individual limit level.

In accordance with the internal regulations and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. However, a significant portion of loans is represented by loans to individuals, where such facilities cannot always be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in the amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the off-balance sheet liabilities as it does to the balance sheet financial instruments, i.e. using limits to mitigate the risk and continuous monitoring.

The Bank monitors the term to maturity on off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Significant increase in credit risk. Credit risk assessment is performed on each reporting date starting from the date of initial recognition till the date of de-recognition. The Bank recognizes expected credit losses on financial assets as the first stage of impairment ("Stage 1") if, at the reporting date, the credit risk of financial assets has not increased significantly from their initial recognition. The Bank recognizes expected credit losses on financial assets as the second stage of impairment ("Stage 2") if, at the reporting date, the credit risk of financial assets has increased significantly from their initial recognition.

24. Risk management policies (continued)

The main factors that indicate that a significant increase in credit risk occurred are:

- Overdue payments for the period of over 30 calendar days;
- Restructuring;
- A substantial devaluation of the national currency against the exposure currency without relevant foreign currency denominated collateral;
- Deterioration of the financial asset's rating to the specified level/to the relevant level or, in comparison with the historical value, to the determined level;
- In the case of Retail Business mortgage loans, the debt-to-collateral value (LTV) ratio exceeds a predetermined indicator or compared to the historical value, it deteriorates to a predetermined degree;
- Existing default indicators under other financial assets of the Retail Business borrower;
- As a result of the monitoring process with the use of the Early Warning system, financial assets of the Corporate Business borrower are assigned a worse risk status.

The Bank recognizes expected credit losses on financial assets as the third stage of impairment ("Stage 3") if, at the reporting date, the financial assets have objective evidence of impairment. Stage 3 financial assets are the financial assets in respect of which there is objective evidence of expected loss or one or more events are observed that have a negative impact on the expected cash flows under such financial assets.

The main indicators that evidence for inclusion of financial assets to Stage 3 include:

- Significant financial difficulties of the counterparty/issuer;
- Breach of the contract terms, such as default or past due payment meeting the default definition;
- Provision by the Bank of favorable terms to a borrower for economic reasons related to financial difficulties of the borrower that the Bank would not otherwise consider;
- A high probability of a bankruptcy or other financial reorganization;
- The market becomes inactive for a financial asset as a result of financial difficulties;
- Acquisition or origination of a financial asset with significant discount which reflects incurred credit losses;
- As a result of the monitoring process with the use of the Early Warning system, business lines of the Corporate Business borrower are assigned the worst risk status.

The Bank considers a comprehensive effect of several events that cannot be identified as a single event that has caused impairment.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Internal credit risk ratings. Financial assets are graded as follows:

- Due from banks – according to the current credit ratings issued by internationally reputable rating agencies and, in their absence, according to the rating system internally developed by the Bank;
- Investments – in accordance with the current credit rating of Ukraine assigned by internationally regarded agencies;
- Loans to customers – according to the rating system developed by the Bank.

Credit risk of financial assets is assessed on an individual or portfolio basis. Financial assets for the purpose of calculating expected credit losses are divided into significant and insignificant. Significant assets include corporate clients whose amounts due, at the measurement date, exceed the equivalent of EUR 400 thousand. Loans that are treated as insignificant and possessing similar credit risk characteristics are assessed on a portfolio basis, and others – on an individual basis.

Incorporation of forward-looking information. The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECLs. The Bank involves experts of OTP Bank Plc. who use external and internal information to generate a ‘base case’ scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. Factors considered within this process include macroeconomic data, such as GDP growth, exports, and investments.

As at 31 December 2022, the Bank determined three main scenarios:

Baseline scenario (scenario 1)
- Price of gas: 180 EUR/MWh in 2023;
- Gradual deflation without secondary effects;
- Interest rates will remain high;
- Slow economic growth;
- Real GDP changes for 2023 are estimated with the following trend:

1st quarter of 2023	2st quarter of 2023	3st quarter of 2023	4st quarter of 2023
6,1%	6,1%	6,1%	6,1%

Optimistic scenario (scenario 2)
- Price of gas will rapidly decreasing to 40 EUR/MWh in 2024;
- Quite strong deflation in connection with the drop in the price of goods;
- Interest rates will be reduced;
- Economic growth will accelerate;
- Real GDP changes for 2023 are estimated with the following trend:

1st quarter of 2023	2st quarter of 2023	3st quarter of 2023	4st quarter of 2023
12,4%	12,4%	12,4%	12,4%

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Stressful scenario (scenario 3)

- Extremely high energy prices;
- There will be an inflationary shock;
- Higher level of interest rates;
- The Eurozone is at risk of a deep recession and recovery will be very slow;
- Real GDP changes for 2023 are estimated with the following trend:

1st quarter of 2023	2st quarter of 2023	3st quarter of 2023	4st quarter of 2023
2,3%	2,3%	2,3%	2,3%

The Bank applies probabilities to the forecast scenarios determined. As such, as at 31 December 2022 abovementioned scenarios were weighted with probabilities of 60% (Baseline scenario), 20% (Optimistic scenario) and 20%(Stressful scenario) respectively.

As at 31 December 2021, the Bank determined three main scenarios:

Forecast (scenario 2)

- Developed economies will grow by 4% in 2022, in line with analysts' consensus and the forecasts of large international institutions;
- Inflation will not be a serious problem;
- Gradual rise in yields on core markets, real interest rates will remain negative;
- Strong GDP growth in OTP universe, 4-5% in 2022; 3-4% in 2023;
- In this scenario loan growth will remain high, corporate and consumer loan growth could reach 10%, mortgages 16%;
- Real GDP changes for 2022 are estimated with the following trend:

1st quarter of 2022	2st quarter of 2022	3st quarter of 2022	4st quarter of 2022
5.7%	7.1%	2.9%	2.4%

Mild stress (scenario 4)

- Policy stimulus will result in more inflation and less growth;
- Developed economies will grow by the 2% in 2022;
- Inflation will be roughly 2 percentage points higher than in the baseline;
- Further rate hikes in OTP universe as well as in developed economies;
- Due to lower real GDP and wage growth and higher rates, we expect loan growth to be about 1-2% lower than in the baseline scenario;
- Real GDP changes for 2022 are estimated with the following trend:

1st quarter of 2022	2st quarter of 2022	3st quarter of 2022	4st quarter of 2022
5.2%	6.0%	0.5%	-0.3%

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Severe stress (scenario 5)

- In the stress scenario expect a sharp (-3/-8% recession next year) and slower growth thereafter;
- Zero/negative interest rates would be kept in major developed economies;
- Rate hikes to be reversed in OTP Universe;
- We think this scenario is less likely, currently we do not see events that could trigger such a scenario;
- However, in the medium term the current inflationary and very stimulative approach of decision makers in developed economies could overheat loan and real-estate markets, which could make this scenario more likely in a few years' time;
- Real GDP changes for 2022 are estimated with the following trend**:**

1st quarter of 2022	2st quarter of 2022	3st quarter of 2022	4st quarter of 2022
0.4%	-2.8%	-10.7%	-12.9%

The Bank applies probabilities to the forecast scenarios determined. As such, as at 31 December 2021 abovementioned scenarios were weighted with probabilities of 50%, 30% and 20% respectively.

Measurement of ECLs. The key inputs used for measuring ECLs are:

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

As explained above, these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD (probability of default) is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on historical information and current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD (loss given default) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider: collateral coverage, sale discounts, time to realization of collateral, cost of realization of collateral, and historical data about level and time of recovery. LGD models for unsecured assets consider time of recovery and recovery rates after default.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

As at 31 December 2022, due to the war in Ukraine, the Bank applied its expert judgement for certain segments/group of ciliets, as additional factors of deterioration of risk parameters:

1. Corporate clients with business in the occupied regions and for which the Bank do not expect cash flows during next 9 months –recognized provision at level 99% of outstanding debts;
2. Retail unsecured loans in Donetsk, Luhansk, Kherson, Zaporizhia regions with more than 90 days past due– applied 100% PD;
3. Retail unsecured loans in Donetsk, Luhansk, Kherson, Zaporizhia, Mykolayiv, Kharkiv regions – applied additional downgrade criteria (significant increase in credit risk) to level 2 (stage 2);
4. Retail secured loans in Donetsk, Luhansk, Kherson, Zaporizhia regions – applied 100% provision coverage;
5. Retail secured loans in Mykolayiv, Kharkiv regions – applied 100% LGD.

EAD (exposure at default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as repayment in accordance with the contractual schedule, changes in utilization of undrawn commitments, and credit mitigation actions taken before default.

The Bank measures expected credit losses for financial assets considering the risk of default over the maximum contractual period over which the Bank is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

The measurement of expected credit losses is based on probability weighted average credit loss. As a result, the measurement of the credit risk should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items).

For the purposes of assessing expected credit losses for loans to customers, financial accounts receivable, due from banks that are subject to impairment requirements under IFRS 9, the Bank allocates those financial assets into five risk levels, depending on the days past due and default indicators, in particular:

	Loans and advances to customers	**Financial accounts receivable (other financial assets)**	**Due from banks (loans and advances to banks)**
LEVEL 1	Not past due (DPD = 0)	Not past due (1–5 days)	Not past due (DPD = 0)
LEVEL 2	1–30 days past due	6–30 days past due	1–3 days past due
LEVEL 3	31–60 days past due	31–60 days past due	4-5 days past due
LEVEL 4	61–90 days past due	61–90 days past due	6-7 days past due
LEVEL 5	more than 90 days past due	more than 90 days past due	more than 90 days past due

For the purposes of assessing expected credit losses for investment securities at amortized cost and investment securities at fair value through other comprehensive income, the Bank allocates those assets to four risk levels in accordance with the ratings assigned by international rating agencies (Fitch, Moody's, S&P). Level 1 corresponds to ratings from AAA to A-, Level 2 corresponds to ratings from

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24. Risk management policies (continued)

BBB+ to B-, Level 3 corresponds to ratings from CCC+ to CCC-, and Level 4 (default) corresponds to rating CC.

An analysis of the Bank's credit risk exposure per class of financial asset, internal rating, and "stage" is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For contingent and loan commitments, the amounts in the table represent the amounts committed.

				As at 31 December 2022
Loans and advances to legal entities	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	15,368,415	11,548,573	2,378,701	7,749
LEVEL 2	52,945	171,945	175,450	-
LEVEL 3	-	282,399	64,866	-
LEVEL 4	-	3,585	704,627	-
LEVEL 5	-	293	658,547	115,478
Total	**15,421,360**	**12,006,795**	**3,982,191**	**123,227**

				As at 31 December 2021
Loans and advances to legal entities	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	30,858,907	568,794	1,006,980	9,945
LEVEL 2	3,152	9,954	72,963	-
LEVEL 3	-	19,430	24,595	-
LEVEL 4	-	1,287	1	-
LEVEL 5	-	815	173,032	100,577
Total	**30,862,059**	**600,280**	**1,277,571**	**110,522**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

				As at 31 December 2022
Loans and advances to individuals	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	2,574,642	1,568,920	359,848	162,563
LEVEL 2	10,042	126,152	30,602	9,039
LEVEL 3	-	105,691	28,820	3,916
LEVEL 4	-	78,257	21,383	1,876
LEVEL 5	-	302,781	2,035,786	44,611
Total	**2,584,684**	**2,181,801**	**2,476,439**	**222,005**

				As at 31 December 2021
Loans and advances to individuals	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	7,576,690	1,791,012	107,398	211,032
LEVEL 2	34,920	89,053	15,602	15,535
LEVEL 3	-	76,579	10,335	114
LEVEL 4	-	37,103	6,076	-
LEVEL 5	-	53,658	959,638	27,159
Total	**7,611,610**	**2,047,405**	**1,099,049**	**253,840**

			As at 31 December 2022
Other financial assets	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**
LEVEL 1	339,019	-	-
LEVEL 2	106	-	-
LEVEL 3	-	201	-
LEVEL 4	-	325	-
LEVEL 5	-	-	12,044
Total	**339,125**	**526**	**12,044**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

			As at 31 December 2021
Other financial assets	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**
LEVEL 1	120,644	-	-
LEVEL 2	57	-	-
LEVEL 3	-	577	-
LEVEL 4	-	157	-
LEVEL 5	-	-	32,132
Total	**120,701**	**734**	**32,132**

Gross carrying value of loans and advances to banksas at 31 December 2022 and 2021 was at Stage 1 and Level 1.

	As at 31 December 2022	
Investments at fair value through other comprehensive income	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**
LEVEL 1	2,517	2,604,077

	As at 31 December 2022
Investments at amortized cost	**Stage 1 12-months ECLs**
LEVEL 1	30,247,364

Gross carrying value of investments in securities as at 31 December 2021 was at Stage 1 and Level 1.

The following tables analyze information on significant changes in gross carrying value of loans and advances to customers, financial guarantees issued and similar commitments during the period, as well as movements in respective expected losses during the years ended 31 December 2022 and 2021 by classes of financial assets. Movements in expected credit losses by the items of due from banks, investments at fair value through other comprehensive income, investments at amortized cost, and other financial assets are not material for the purpose of these separate financial statements.

As at 31 December 2022 and 2021, the effect of foreign exchange rate fluctuations on changes in expected credit losses of financial instruments that are covered by impairment requirements under IFRS 9, the amount to UAH 818,842 thousand (loss) and UAH 56,256 thousand (loss), respectively.

During the years ended 31 December 2022 and 2021, the effect of foreign exchange rate fluctuations on changes in provisions for covering expected credit losses of contingent liabilities and loan commitments, the amount to UAH 10,863 thousand (loss) and UAH 5,124 thousand (loss), respectively.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

During the years ended 31 December 2022 and 2021, the Bank received income from the return of previously written off loans and advances to customers, the amount to UAH 5,537 thousand and UAH 19,618 thousand, respectively, which was recognized in the statement item "Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9".

Transfer amounts between stages include both expected credit losses for assets/gross carrying value at the time of the transfer amounts between stages and changes measures in credit loss / gross carrying value before/after the transfer between stages.

As at 31 December 2022 and 2021, the gross carrying value of loans and advances to banks was classified as Stage 1 for the measures of expected credit losses.

Loans and advances to banks – change in expected credit losses by Stages	Stage 1 12-months ECLs
31 December 2021	**43,503**
New loans to banks or purchased loans	193,001
Loans to banks derecognized during the reporting period	(43,503)
31 December 2022	**193,001**

Loans and advances to banks – change in expected credit losses by Stages	Stage 1 12-months ECLs
31 December 2020	**1,198**
New loans to banks or purchased loans	43,503
Loans to banks derecognized during the reporting period	(1,198)
31 December 2021	**43,503**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to legal entities – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2021	**30,862,058**	**600,280**	**1,277,572**	**110,522**	**32,850,432**
New loans or purchased loans	11,545,304	4,583,762	693,349	0	16,822,415
Transfer from Stage 1, 12-month ECLs	(514,624)	7,117,922	1,957,251	-	8,560,549
Transfer from Stage 2, Lifetime ECLs	(6,462,806)	(28,017)	34,705	-	(6,456,118)
Transfer from Stage 3, Lifetime ECLs	(1,670,402)	(33,907)	166,812	-	(1,537,497)
Loans derecognized during the reporting period	(18,338,171)	(233,246)	-	-	(18,571,417)
Loans sold and written off during the reporting period	-	-	(147,497)	-	(147,497)
Effect of other changes	-	-	-	12,706	12,706
31 December 2022	**15,421,359**	**12,006,794**	**3,982,192**	**123,228**	**31,533,573**

Loans and advances to legal entities – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2020	**19,517,262**	**542,795**	**1,606,161**	**112,941**	**21,779,159**
New loans or purchased loans	26,599,530	530,119	201,323	-	27,330,972
Transfer from Stage 1, 12-month ECLs	(475,568)	(9,959)	453	-	(485,074)
Transfer from Stage 2, Lifetime ECLs	10,526	(39,230)	2,524	-	(26,180)
Transfer from Stage 3, Lifetime ECLs	(1,846)	(4,054)	(49,434)	-	(55,334)
Loans derecognized during the reporting period	(14,787,846)	(419,391)	(197,244)	-	(15,404,481)
Loans sold and written off during the reporting period	-	-	(286,211)	-	(286,211)
Effect of other changes	-	-	-	(2,419)	(2,419)
31 December 2021	**30,862,058**	**600,280**	**1,277,572**	**110,522**	**32,850,432**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to individuals – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2021	**7,611,603**	**2,047,411**	**1,099,050**	**253,840**	**11,011,904**
New loans or purchased loans	596,808	296,721	474,536	91	1,368,156
Transfer from Stage 1, 12-month ECLs	(708,554)	858,793	983,140	-	1,133,379
Transfer from Stage 2, Lifetime ECLs	(1,168,017)	(69,008)	412,874	-	(824,151)
Transfer from Stage 3, Lifetime ECLs	(809,714)	(344,606)	477,488	-	(676,832)
Loans derecognized during the reporting period	(2,937,441)	(607,464)	-	(25,415)	(3,570,320)
Loans sold and written off during the reporting period	-	-	(968,043)	-	(968,043)
Effect of other changes	(1)	(46)	(2,606)	(6,511)	(9,164)
31 December 2022	**2,584,684**	**2,181,801**	**2,476,439**	**222,005**	**7,464,929**

Loans and advances to individuals – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2020	**6,159,874**	**1,433,228**	**1,631,544**	**348,172**	**9,572,818**
New loans or purchased loans	4,820,300	806,923	153,031	244	5,780,498
Transfer from Stage 1, 12-month ECLs	(309,748)	299,059	97,075	-	86,386
Transfer from Stage 2, Lifetime ECLs	(336,653)	(37,533)	9,714	-	(364,472)
Transfer from Stage 3, Lifetime ECLs	(80,097)	(20,801)	158,033	-	57,135
Loans derecognized during the reporting period	(2,657,398)	(436,619)	(190,695)	(58,499)	(3,343,211)
Loans sold and written off during the reporting period	-	-	(760,748)	-	(760,748)
Restructured loans	15,325	3,154	1,096	117	19,692
Effect of other changes	-	-	-	(36,194)	(36,194)
31 December 2021	**7,611,603**	**2,047,411**	**1,099,050**	**253,840**	**11,011,904**

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24. Risk management policies (continued)

Loans and advances to legal entities – change in expected credit losses by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2021	**717,651**	**102,863**	**722,060**	**17,654**	**1,560,228**
New loans or purchased loans	270,427	758,285	573,011	-	1,601,723
Transfer from Stage 1, 12-month ECLs	(12,765)	1,323,668	1,674,720	-	2,985,623
Transfer from Stage 2, Lifetime ECLs	(152,477)	3,993	28,594	-	(119,890)
Transfer from Stage 3, Lifetime ECLs	(39,409)	(10,842)	371,409	-	321,158
Loans derecognized during the reporting period	(422,182)	(37,732)	-	-	(459,914)
Loans sold and written off during the reporting period	-	-	(147,497)	-	(147,497)
Adjustment of interest income	-	-	118,386	-	118,386
Effect of changes in models or risk parameters, other changes	-	-	-	41,543	41,543
31 December 2022	**361,245**	**2,140,235**	**3,340,683**	**59,197**	**5,901,360**

Loans and advances to legal entities – change in expected credit losses by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2020	**464,992**	**141,564**	**1,078,495**	**(14,093)**	**1,670,958**
New loans or purchased loans	617,082	83,316	88,030	-	788,428
Transfer from Stage 1, 12-month ECLs	(12,334)	(1,798)	(74)	-	(14,206)
Transfer from Stage 2, Lifetime ECLs	243	(13,305)	374	-	(12,688)
Transfer from Stage 3, Lifetime ECLs	(31)	(1,718)	(62,914)	-	(64,663)
Loans derecognized during the reporting period	(352,301)	(105,196)	(142,369)	-	(599,866)
Loans sold and written off during the reporting period	-	-	(286,211)	-	(286,211)
Adjustment of interest income	-	-	46,729	-	46,729
Effect of changes in models or risk parameters, other changes	-	-	-	31,747	31,747
31 December 2021	**717,651**	**102,863**	**722,060**	**17,654**	**1,560,228**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to individuals – change in expected credit losses by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2021	**179,051**	**512,221**	**978,636**	**171,742**	**1,841,650**
New loans or purchased loans	17,333	103,398	392,598	70	513,399
Transfer from Stage 1, 12-month ECLs	(2,035)	357,524	874,454	-	1,229,943
Transfer from Stage 2, Lifetime ECLs	(27,505)	26,120	373,647	-	372,262
Transfer from Stage 3, Lifetime ECLs	(20,140)	(91,457)	366,584	-	254,987
Loans derecognized during the reporting period	(66,661)	(163,403)	-	(19,126)	(249,190)
Loans sold and written off during the reporting period	-	-	(968,043)	-	(968,043)
Adjustment of interest income	-	-	197,276	-	197,276
Effect of changes in models or risk parameters, other changes	-	(42)	(2,578)	14,578	11,958
31 December 2022	**80,043**	**744,361**	**2,212,574**	**167,264**	**3,204,242**

Loans and advances to individuals – change in expected credit losses by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Purchased or originated credit impaired loans	Total
31 December 2020	**176,672**	**257,265**	**1,401,823**	**207,065**	**2,042,825**
New loans or purchased loans	109,339	176,274	106,013	138	391,764
Transfer from Stage 1, 12-month ECLs	(12,394)	114,322	80,369	-	182,297
Transfer from Stage 2, Lifetime ECLs	(13,993)	40,592	24,180	-	50,779
Transfer from Stage 3, Lifetime ECLs	(1,996)	8,138	80,179	-	86,321
Loans derecognized during the reporting period	(79,191)	(84,862)	(95,488)	(38,747)	(298,288)
Loans sold and written off during the reporting period	-	-	(760,748)	-	(760,748)
Restructured loans	614	492	567	33	1,706
Adjustment of interest income	-	-	141,741	-	141,741
Effect of changes in models or risk parameters, other changes	-	-	-	3,253	3,253
31 December 2021	**179,051**	**512,221**	**978,636**	**171,742**	**1,841,650**

As at 31 December 2022, the gross carrying value of investments in securities at fair value through other comprehensive income for the measures of expected credit losses was classified as Stage 1 in the amount of UAH 2,517 thousand and as Stage 2 in the amount of UAH 2,604,077 thousand.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

As at 31 December 2022, the gross carrying value of investments in securities at amortized cost for the measures of expected credit losses was classified as Stage 1 in the amount of UAH 30,247,364 thousand.

As at 31 December 2021, the gross carrying value of investments in securities was classified as Stage 1 for the measures of expected credit losses.

Investments in securities at fair value through other comprehensive income– change in expected credit losses by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Total**
31 December 2021	**78,733**	**-**	**78,733**
New investments	78	2,096	2,174
Transfer from Stage 1, 12-month ECLs	(81,295)	79,199	(2,096)
Investments sold and written off during the reporting period	-	(57,836)	(57,836)
Effect of other changes	2,562	62,388	64,950
31 December 2022	**78**	**85,847**	**85,925**

Investments in securities at fair value through other comprehensive income– change in expected credit losses by Stages	**Stage 1 12-months ECLs**
31 December 2020	**109,327**
New investments	135,802
Investments sold and written off during the reporting period	(160,721)
Effect of other changes	(5,675)
31 December 2021	**78,733**

Change in expected credit losses on investments in securities at fair value through other comprehensive income that were purchased during 2022 and purchased in 2021 (during 2021 and purchased in 2020) that are outstanding and unsold as at 31 December 2022 year was UAH 68,492 thousand (31 December 2021: UAH 66,993 thousand).

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Other financial assets – change in gross carrying value by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**120,699**	**735**	**32,133**	**153,567**
New assets	316,310	426	1,487	318,223
Transfer from Stage 1, 12-month ECLs	(6,299)	(20)	(17,588)	(23,907)
Transfer from Stage 2, Lifetime ECLs	15	1	148	164
Transfer from Stage 3, Lifetime ECLs	7,388	(57)	(3,794)	3,537
Assets derecognized during the reporting period	(98,988)	(559)	(342)	(99,889)
31 December 2022	**339,125**	**526**	**12,044**	**351,695**

Other financial assets – change in gross carrying value by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**109,910**	**259**	**29,672**	**139,841**
New assets	12,843	601	2,721	16,165
Transfer from Stage 1, 12-month ECLs	3,730	8	850	4,588
Transfer from Stage 2, Lifetime ECLs	309	(4)	17	322
Transfer from Stage 3, Lifetime ECLs	(242)	(24)	676	410
Assets derecognized during the reporting period	(5,851)	(105)	(1,803)	(7,759)
31 December 2021	**120,699**	**735**	**32,133**	**153,567**

Other financial assets – change in expected credit losses by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**14,275**	**586**	**19,725**	**34,586**
New assets	1,512	115	1,486	3,113
Transfer from Stage 1, 12-month ECLs	(1,571)	(5)	(5,195)	(6,771)
Transfer from Stage 2, Lifetime ECLs	9	-	148	157
Transfer from Stage 3, Lifetime ECLs	3,293	(15)	(3,834)	(556)
Assets derecognized during the reporting period	(8,381)	(538)	(341)	(9,260)
31 December 2022	**9,137**	**143**	**11,989**	**21,269**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Other financial assets – change in expected credit losses by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**12,903**	**71**	**17,872**	**30,846**
New assets	1,711	550	3,948	6,209
Transfer from Stage 1, 12-month ECLs	2,348	6	850	3,204
Transfer from Stage 2, Lifetime ECLs	9	(1)	17	25
Transfer from Stage 3, Lifetime ECLs	(77)	(11)	68	(20)
Assets derecognized during the reporting period	(2,619)	(29)	(1,803)	(4,451)
Other assets written off during the reporting period	-	-	(1,227)	(1,227)
31 December 2021	**14,275**	**586**	**19,725**	**34,586**

Financial guarantees – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**2,693,172**	**108,017**	**250**	**2,801,439**
New guarantees	900,466	367,072	-	1,267,538
Transfer from Stage 1, 12-month ECLs	(51,967)	98,496	-	46,529
Transfer from Stage 2, Lifetime ECLs	(123,779)	5,131	-	(118,648)
Transfer from Stage 3, Lifetime ECLs	-	-	(200)	(200)
Guarantees derecognized during the reporting period	(1,478,721)	(23,762)	-	(1,502,483)
31 December 2022	**1,939,171**	**554,954**	**50**	**2,494,175**

Financial guarantees – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**2,573,371**	**129,562**	**250**	**2,703,183**
New guarantees	1,229,048	8,468	-	1,237,516
Transfer from Stage 1, 12-month ECLs	175,065	-	-	175,065
Transfer from Stage 2, Lifetime ECLs	-	(19,398)	-	(19,398)
Guarantees derecognized during the reporting period	(1,284,312)	(10,615)	-	(1,294,927)
31 December 2021	**2,693,172**	**108,017**	**250**	**2,801,439**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Financial guarantees – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**63,594**	**15,042**	**119**	**78,755**
New guarantees	21,092	54,154	-	75,246
Transfer from Stage 1, 12-month ECLs	(1,400)	14,531	-	13,131
Transfer from Stage 2, Lifetime ECLs	(2,920)	1,454	-	(1,466)
Transfer from Stage 3, Lifetime ECLs	-	-	(94)	(94)
Guarantees derecognized during the reporting period	(34,884)	(3,309)	-	(38,193)
31 December 2022	**45,482**	**81,872**	**25**	**127,379**

Financial guarantees – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**61,165**	**24,230**	**157**	**85,552**
New guarantees	28,994	1,178	-	30,172
Transfer from Stage 1, 12-month ECLs	4,036	-	-	4,036
Transfer from Stage 2, Lifetime ECLs	-	(8,381)	-	(8,381)
Transfer from Stage 3, Lifetime ECLs	-	-	(38)	(38)
Guarantees derecognized during the reporting period	(30,601)	(1,985)	-	(32,586)
31 December 2021	**63,594**	**15,042**	**119**	**78,755**

Import letters of credit – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**
31 December 2021	**408,883**	**-**
New letters of credit	215,253	106,689
Transfer from Stage 1, 12-month ECLs	(50,226)	-
Letters of credit derecognized during the reporting period	(253,533)	-
31 December 2021	**320,377**	**106,689**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Import letters of credit – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**
31 December 2020	**238,482**
New letters of credit	408,883
Letters of credit derecognized during the reporting period	(238,482)
31 December 2021	**408,883**

Import letters of credit – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**
31 December 2021	**9,646**	**-**
New letters of credit	5,042	15,740
Transfer from Stage 1, 12-month ECLs	(1,203)	-
Letters of credit derecognized during the reporting period	(5,981)	-
31 December 2022	**7,504**	**15,740**

Import letters of credit – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**
31 December 2020	**5,682**
New letters of credit	9,646
Letters of credit derecognized during the reporting period	(5,682)
31 December 2021	**9,646**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Avals – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECl**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**60,624**	**-**	**25,000**	**85,624**
New avals	8,776	-	25,000	33,776
Transfer from Stage 1, 12-month ECLs	-	3,555	-	3,555
Transfer from Stage 2, Lifetime ECLs	(3,555)	-	-	(3,555)
Avals derecognized during the reporting period	(57,069)	-	(25,000)	(82,069)
31 December 2021	**8,776**	**3,555**	**25,000**	**37,331**

Avals – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**29,549**	**-**	**29,549**
New avals	60,624	25,000	85,624
Avals derecognized during the reporting period	(29,549)	-	(29,549)
31 December 2021	**60,624**	**25,000**	**85,624**

Avals – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECl**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**1,430**	**-**	**11,857**	**13,287**
New avals	206	-	24,750	24,956
Transfer from Stage 1, 12-month ECLs	-	524	-	524
Transfer from Stage 2, Lifetime ECLs	(84)	-	-	(84)
Avals derecognized during the reporting period	(1,346)	-	(11,857)	(13,203)
31 December 2022	**206**	**524**	**24,750**	**25,480**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Avals – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs	Stage 3 Lifetime ECLs	Total
31 December 2020	**704**	**-**	**704**
New avals	1,430	11,857	13,287
Avals derecognized during the reporting period	(704)	-	(704)
31 December 2021	**1,430**	**11,857**	**13,287**

Undrawn loan commitments – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
31 December 2021	**9,392,430**	**565,647**	**6,732**	**9,964,809**
New undrawn loan commitments	772,155	44,366	1,797	818,318
Transfer from Stage 1, 12-month ECLs	(3,177,077)	43,192	4,297	(3,129,588)
Transfer from Stage 2, Lifetime ECLs	(576,818)	(38,126)	792	(614,152)
Transfer from Stage 3, Lifetime ECLs	(19,762)	(2,532)	(785)	(23,079)
Undrawn loan commitments derecognized during the reporting period	(2,703,624)	(213,149)	(2,409)	(2,919,182)
31 December 2022	**3,687,304**	**399,398**	**10,424**	**4,097,126**

Undrawn loan commitments – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
31 December 2020	**6,666,632**	**243,572**	**3,233**	**6,913,437**
New undrawn loan commitments	3,588,926	130,968	2,136	3,722,030
Transfer from Stage 1, 12-month ECLs	552,758	183,478	3,214	739,450
Transfer from Stage 2, Lifetime ECLs	(49,702)	43,376	(3)	(6,329)
Transfer from Stage 3, Lifetime ECLs	(2,537)	129	42	(2,366)
Undrawn loan commitments derecognized during the reporting period	(1,363,647)	(35,876)	(1,890)	(1,401,413)
31 December 2021	**9,392,430**	**565,647**	**6,732**	**9,964,809**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Undrawn loan commitments – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2021	**116,372**	**73,070**	**3,336**	**192,778**
New undrawn loan commitments	13,053	6,124	1,048	20,225
Transfer from Stage 1, 12-month ECLs	(25,030)	12,483	2,364	(10,183)
Transfer from Stage 2, Lifetime ECLs	(6,932)	(3,658)	402	(10,188)
Transfer from Stage 3, Lifetime ECLs	(227)	(310)	(254)	(791)
Undrawn loan commitments derecognized during the reporting period	(41,582)	(27,765)	(1,171)	(70,518)
31 December 2022	**55,654**	**59,944**	**5,725**	**121,323**

Undrawn loan commitments – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2020	**163,360**	**14,382**	**2,118**	**179,860**
New undrawn loan commitments	43,584	16,340	1,419	61,343
Transfer from Stage 1, 12-month ECLs	35,920	33,940	1,285	71,145
Transfer from Stage 2, Lifetime ECLs	953	15,193	28	16,174
Transfer from Stage 3, Lifetime ECLs	6	135	33	174
Undrawn loan commitments derecognized during the reporting period	(127,451)	(6,920)	(1,547)	(135,918)
31 December 2021	**116,372**	**73,070**	**3,336**	**192,778**

Modified and restructured financial assets

The table below analyzes the effect of modifications on financial assets measured at amortized cost for the years ended 31 December 2022 and 2021:

	2022	**2021**
Amortized cost of financial assets before modification (Lifetime ECLs)	7,077,637	848,450
Net loss on modification of financial assets	(100,254)	(11,209)
Gross carrying value of modified financial assets, at the end of the reporting period, transferred to 12-month ECLs	308,678	113,888

24. Risk management policies (continued)

Geographical risk.

Risk substance. Geographical risk - the risk of non-payment, or non-fulfilment of the original contractual conditions, when the recipient government or other market participants are, due to economic reasons or other social events, unable or unwilling to meet their payment obligations against the foreign residents. Therefore, the geographical risk exposure is related to the foreign risk-taking of the Bank in all cases.

Objective of geographical risk management. Geographical risk management aims at building a portfolio of Bank assets that will ensure a acceptable profitability with sufficient diversification across countries and limiting the concentration and portfolio size as to the most volatile segments of the portfolio.

Risk management policies. Geographical risk is managed at two levels: at the level of the international OTP Group and locally. OTP Group determines the appetite to the risk, while the Bank's management is responsible for the operation of the process of identification, detection, measurement, controlling and reporting on geographical risk, as well as compliance with the NBU requirements for risk management.

The highest collegial body in charge of managing geographical risk is the Credit Committee, which is set up by the decision of the Bank's Supervisory Board.

Geographical risk management process includes identification, measurement, monitoring and control, mitigation and reporting.

Identification of geographical risk is performed during risk analysis of new products.

Risk measurement involves determining the geographical affiliation of the Bank's counterparties with which operations are conducted and determining the total amount of exposure by country or region. The geographical affiliation of corporate borrowers is determined in accordance with the criteria for their registration. According to the Bank’s corporate credit policy, the target clients are legal entities residents of Ukraine. Non-residents can be financed in exceptional cases if they belong to wealthy Ukrainian groups of related companies. Country risk arises mainly from transactions on the placement of financial resources on the interbank market of other countries and / or capital markets of other countries for settlement operations of the Bank's customers and in the management of the bank's liquidity position. As of December 31, 2022 and 2021, there are no non-resident borrowers in the corporate portfolio.

Monitoring and control of geographical risk involves comparison of risk measurement results with approved limits for countries or regions. Measurement and management of geographical risk is performed in accordance with Country Risk Management Regulation. This document was prepared by employee of the Bank in accordance with regulation of the Parent Bank.

Reporting on geographical risk is performed on a monthly basis to the Management Board of the Bank and to the relevant division of the Parent Bank, quarterly - to the Supervisory Board.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Concentration of assets and liabilities by regions is presented below:

	Ukraine	Non-OECD countries	OECD countries	31 December 2022 Total
FINANCIAL ASSETS				
Cash and cash equivalents	4,749,260	-	-	4,749,260
Loans and advances to banks	319,509	385,762	21,015,321	21,720,592
Loans and advances to customers	29,892,900	-	-	29,892,900
Investments in securities				
Investments at fair value through other comprehensive income	2,606,594	-	-	2,606,594
Investments at amortized cost	28,466,717	-	1,779,278	30,245,995
Derivative financial assets	-		3,246	3,246
Other financial assets	328,808	20	1,598	330,426
TOTAL FINANCIAL ASSETS	**66,363,788**	**385,782**	**22,799,443**	**89,549,013**
FINANCIAL LIABILITIES				
Due to others banks	-	2	229	231
Customer accounts	76,656,745	299,231	780,484	77,736,460
Derivative financial liabilities	-	-	9,233	9,233
Other borrowed funds	159			159
Other financial liabilities				
Lease liabilities	442,431	-	-	442,431
Other financial liabilities	626,196		1,853	628,049
TOTAL FINANCIAL LIABILITIES TOTAL FINANCIAL LIABILITIES	**77,725,531**	**299,233**	**791,799**	**78,816,563**
NET POSITION	**(11,361,743)**	**86,549**	**22,007,644**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Ukraine	Non-OECD countries	OECD countries	31 December 2021 Total
FINANCIAL ASSETS				
Cash and cash equivalents	3,870,163	-	-	3,870,163
Loans and advances to banks	492,085	265,902	8,371,404	9,129,391
Loans and advances to customers	40,460,458	-	-	40,460,458
Investments in securities				
Investments at fair value through other comprehensive income	7,671,679	-	-	7,671,679
Investments at amortized cost	6,956,240	-	-	6,956,240
Derivative financial assets	1,243	-	7,133	8,376
Other financial assets	118,981	-	-	118,981
TOTAL FINANCIAL ASSETS	**59,570,849**	**265,902**	**8,378,537**	**68,215,288**
FINANCIAL LIABILITIES				
Due to others banks	-	2	1,223	1,225
Customer accounts	56,375,799	232,166	457,032	57,064,997
Derivative financial liabilities	4	-	-	4
Other borrowed funds	176	-	-	176
Other financial liabilities				
Lease liabilities	450,168	-	-	450,168
Other financial liabilities	653,600	-	2,508	656,108
TOTAL FINANCIAL LIABILITIES TOTAL FINANCIAL LIABILITIES	**57,479,747**	**232,168**	**460,763**	**58,172,678**
NET POSITION	**2,091,102**	**33,734**	**7,917,774**	

24. Risk management policies (continued)

Liquidity risk

Risk substance. Liquidity risk is defined as possibility to incur losses or forgo profits due to the Bank's inability to fulfill its commitments timely and in a full scope as well as fund business asset growth.

***Objective of liquidity risk management*.** The objective of liquidity risk is:

a) availability of liquid assets at a minimum costs (including loss of potential profits due to overliquidity) for fulfilling the Bank's liabilities coming due to customers, creditors and other counterparties;
b) ensuring compliance with regulatory requirements of the NBU regarding the Bank's liquidity;
c) ensuring funds for sustainable growth of business as envisaged by credit and investment policies of the Bank;
d) creating a stock of liquid reserves against a possible liquidity crisis – abrupt outflow of customers' funds and/or a sudden closing of access to resource markets.

***Liquidity risk management policies*.** The OTP Group's liquidity management process is initially centralized: national currency liquidity management is decentralized and fully entrusted to the Bank's Management Board, while foreign currency liquidity management is fully centralized and carried out at the OTP Group level.

The main collegial body of the Bank that manages liquidity risk is the Assets and Liabilities Management Committee, established by the Bank's Supervisory Board decision.

***Methods*.** To manage an adequate level of liquidity, the Bank performs a complex analysis of the following factors:

- Structure of the Bank's assets and their distribution by maturity (a special attention is given to the volume of available high-liquid assets);
- Volume, structure, and diversity of liabilities (firstly, the share of obligations is analyzed in liabilities, term and demand funds, due amounts to individuals and legal entities and other banks, stability of borrowing facilities, and dependence on expensive or unstable funds sources);
- Level of concentration of assets and liabilities (by counterparties, instruments, and remaining maturities);
- Analysis of cash flows by assets and liabilities type and by currencies;
- Performing stress testing for identification of the level of possible liquidity risk and compliance with the NBU ratios.

The Bank keeps UAH liquid assets in the amount that is sufficient to cover its liquidity needs within the next 3 months, including fulfillment of all the liabilities coming due that will not be renewed, funding planned business expansion and potential outflows in a stress case, including withdrawal of clients' deposits.

24. Risk management policies (continued)

The Bank maintains FCY liquid assets stock in the amount that is sufficient to cover all the liabilities coming due that will not be renewed and to fund the planned business expansion within the next month. The Bank relies on the Parent Bank in case of a liquidity stress.

Liquidity risk of the Bank is managed on 3 time-horizon levels. The operating level involves managing liquidity during the operational day to ensure a sufficient level of liquid assets as of the beginning and the end of the operational day, taking into account the payment calendar. It also includes monitoring of the execution and passage of payments during the operational day to identify significant unplanned deviations from the estimated outflows and inflows in order to be able to make prompt decisions on the need to replenish the amount of liquid funds.

The next level of liquidity management is the management of short-term liquidity. The key indicators at this level are the National Bank of Ukraine’s LCR ratio and internal indicators of short-term liquidity sufficiency.

Internal indicators are based on a basis common with LCR ratio, namely the availability of high-liquid assets to ensure the fulfillment of inter-bank liabilities coming due and not subject to prolongation, to ensure the coverage of cash needs in the event of a stressful situation and significant outflow of resources from the Bank as well as to ensure financing of short-term liquidity needs on the basis of 3-month business line forecasts regarding the growth of financial assets portfolio in the usual course of business activity.

Short-term liquidity management through internal liquidity limits allows risk management units and the Asset-Liability Management Committee of the Bank to make informed decisions about the size of the portfolio of high-liquid assets, its structure and timing of investment in financial assets as well as to determine the interest rate policy of the Bank towards its financial assets and liabilities.
Last level of the liquidity management is the level of medium- and long-term liquidity management. Each year, the Asset-Liability Management Committee of the Bank approves Bank's Financing Program, which sets out the priorities of the credit and investment strategy and how ways of financing. In addition, the financial markets and the market position of the Group are regularly analyzed as well as early warning indicators for the liquidity crisis, indicators for the need to implement Bank’s Recovery Plan, including Bank’s Crisis Financing Plan are monitored.

24. Risk management policies (continued)

On a quarterly basis, the Bank makes stress testing of liquidity risk in order to identify the causes of changes in the liquidity situation, prepare for a stressful situation and test the established risk appetite. At least 3 scenarios are considered:

- liquidity crisis specific to the Bank;
- general market liquidity crisis;
- a combination of specific and market crises.

The results of stress testing with conclusions on improving the liquidity risk management system are submitted to the Assets and Liabilities Management Committee, the Bank's Management Board and the Supervisory Board on a quarterly basis.

In the event of liquidity crisis, a Recovery Plan determines key factors that might help in identifying the crisis at early stages and establishes clear procedures to regulate the information flows and actions of the staff engaged to manage the anti-crisis process.

Liquidity risk is managed by setting limits to volumes of operating liquidity, degree of liabilities concentration or short-term gaps between maturities of assets and liabilities. The control of compliance with limits refers to matching the actual amounts of relevant open positions and restrictions imposed on them. In the event of failure to comply with the limit, origination reasons are analyzed, and a plan of measures is proposed with the aim of removing the deficiency or changing the existing system of limits.

The following tables present the analysis of liquidity risk between assets and liabilities based on the carrying values of financial assets and liabilities as presented in the separate statement of financial position. The tables were drawn on the basis of contractual maturity.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2022 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and cash equivalents	4,749,260	-	-	-	-	4,749,260
Loans and advances to banks	21,340,721	-	-	379,871	-	21,720,592
Loans and advances to customers	13,963,357	3,728,228	6,858,776	4,703,717	638,822	29,892,900
Investments in securities						
Investments at fair value through other comprehensive income	4,163	1,298,009	1,074,997	229,425	-	2,606,594
Investments at amortized cost	28,465,800	917	1,779,278	-	-	30,245,995
Other financial assets	330,426	-	-	-	-	330,426
Total non-derivative financial assets	**68,853,727**	**5,027,154**	**9,713,051**	**5,313,013**	**638,822**	**89,545,767**
Derivative financial assets	3,246	-	-	-	-	3,246
TOTAL FINANCIAL ASSETS	**68,856,973**	**5,027,154**	**9,713,051**	**5,313,013**	**638,822**	**89,549,013**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to others banks	231	-	-	-	-	231
Customer accounts	72,191,213	2,723,135	2,728,784	78,225	15,103	77,736,460
Other borrowed funds	2	3	14	70	70	159
Other financial liabilities						
Lease liabilities	23,053	16,255	90,758	177,048	135,317	442,431
Other financial liabilities	628,049	-	-	-	-	628,049
Loan commitments (off-balance):						
Financial guarantees issued and similar commitments	2,782,528	-	-	-	-	2,782,528
Undrawn loan commitments	3,975,802	-	-	-	-	3,975,802
Total non-derivative financial liabilities	**79,600,878**	**2,739,393**	**2,819,556**	**255,343**	**150,490**	**85,565,660**
Derivative financial liabilities	9,233	-	-	-	-	9,233
TOTAL FINANCIAL LIABILITIES	**79,610,111**	**2,739,393**	**2,819,556**	**255,343**	**150,490**	**85,574,893**
Liquidity gap	(10,753,138)	2,287,761	6,893,495	5,057,670	488,332	
Cumulative liquidity gap	(10,753,138)	(8,465,377)	(1,571,882)	3,485,788	3,974,120	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2021 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and cash equivalents	3,870,163	-	-	-	-	3,870,163
Loans and advances to banks	9,129,391	-	-	-	-	9,129,391
Loans and advances to customers	6,464,056	7,963,672	16,471,366	8,515,054	1,046,310	40,460,458
Investments in securities						
Investments at fair value through other comprehensive income	111,262	873,896	3,707,284	2,976,246	2,991	7,671,679
Investments at amortized cost	6,906,494	49,746	-	-	-	6,956,240
Other financial assets	118,981	-	-	-	-	118,981
Total non-derivative financial assets	**26,600,347**	**8,887,314**	**20,178,650**	**11,491,300**	**1,049,301**	**68,206,912**
Derivative financial assets	8,376	-	-	-	-	8,376
TOTAL FINANCIAL ASSETS	**26,608,723**	**8,887,314**	**20,178,650**	**11,491,300**	**1,049,301**	**68,215,288**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to others banks	1,225	-	-	-	-	1,225
Customer accounts	52,698,659	1,921,593	2,271,291	158,243	15,212	57,064,998
Other borrowed funds	176	-	-	-	-	176
Other financial liabilities						
Lease liabilities	23,053	14,429	79,675	188,552	144,459	450,168
Other financial liabilities	656,108	-	-	-	-	656,108
Loan commitments (off-balance):						
Financial guarantees issued and similar commitments	3,194,318	-	-	-	-	3,194,318
Undrawn loan commitments	9,772,028	-	-	-	-	9,772,028
Total non-derivative financial liabilities	**66,345,567**	**1,936,022**	**2,350,966**	**346,795**	**159,671**	**71,139,021**
Derivative financial liabilities	4	-	-	-	-	4
TOTAL FINANCIAL LIABILITIES	**66,345,571**	**1,936,022**	**2,350,966**	**346,795**	**159,671**	**71,139,025**
Liquidity gap	(39,736,848)	6,951,292	17,827,684	11,144,505	889,630	
Cumulative liquidity gap	(39,736,848)	(32,785,556)	(14,957,872)	(3,813,367)	(2,923,737)	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Liquidity gap, which arose as at 31 December 2022 and 2021 on assets and liabilities with maturities less than one year, is appropriately managed by the Bank.

Time deposits, saving accounts and current accounts are treated as repayable on demand due to contractual terms. In these financial statements, in the disclosures above such funds reported as “On Demand” which supposes that funds will be withdrawn by the client within the next working day from the reporting date.

At the same time, the actual statistic available to the Bank indicates that not all funds on demand are withdrawn from the Bank on the next business day and a significant part of them remains on the relevant accounts for the next day or for a longer period. In other words, there is a conditionally stable part of funds for a certain period of time (i.e. those funds that are stably kept on the accounts for the specified time horizon).

Taking into account this behavioral feature in form of the assessment of conditionally stable balances is important for an effective risk management process and as a consequence for efficient and stable functioning of the Bank.

As at 31 December 2022 and 2021, the stable part of customers’ accounts as at year end less standard deviation of deposits for the last three years, amounted to UAH 60,646,451 thousand and UAH 44,448,135 thousand, respectively.

Thus, as at 31 December 2022 and 2021 the excess of the Bank’s current assets over its current liabilities calculated with reference to the stable portion of customers’ deposits amounted to UAH 59,241,598 thousand and UAH 29,490,263 thousand, respectively.

The impact of the application of the behavioral principle is shown in the table below. A negative liquidity gap of up to 1 year changes to a positive one.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2022 Total
Liquidity gap	(10,753,138)	2,287,762	6,893,495	5,057,670	488,332	
Cumulative liquidity gap	(10,753,138)	(8,465,377)	(1,571,882)	3,485,788	3,974,120	
Stable portfion of customer accounts	60,646,451	-	-	(60,646,451)	-	-
Customer accounts adjusted	11,544,762	2,723,135	2,728,784	60,724,676	15,103	77,736,460
Liquidity gap adjusted	49,893,313	2,287,761	6,893,495	(55,588,781)	488,332	
Cumulative liquidity gap adjusted	49,893,313	52,181,074	59,074,569	3,485,788	3,974,120	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2021 Total
Liquidity gap	(39,736,848)	6,951,292	17,827,684	11,144,505	889,630	
Cumulative liquidity gap	(39,736,848)	(32,785,557)	(14,957,872)	(3,813,368)	(2,923,737)	
Stable portfion of customer accounts	44,448,135	-	-	(44,448,135)	-	-
Customer accounts adjusted	8,250,524	1,921,593	2,271,291	44,606,378	15,212	57,064,998
Liquidity gap adjusted	4,711,287	6,951,292	17,827,684	(33,303,631)	889,630	
Cumulative liquidity gap adjusted	4,711,287	11,662,579	29,490,263	(3,813,368)	(2,923,737)	

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7 "Financial Instruments: Disclosures". The amounts disclosed in these tables do not correspond to the amounts recorded in the separate statement of financial position, as the presentation below includes a maturity analysis for financial liabilities that include the total remaining future undiscounted payments (including interest payments).

The following tables have been prepared based on contractual maturities.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2022 Total
FINANCIAL LIABILITIES						
Due to others banks	231	-	-	-	-	231
Customer accounts	72,137,216	2,736,748	2,741,132	85,899	15,220	77,716,215
Other borrowed funds	1	4	19	92	76	192
Other financial liabilities						
Lease liabilities	8,717	17,433	135,298	288,980	173,451	623,879
Other financial liabilities	628,049	-	-	-	-	628,049
Financial guarantees issued and similar commitments	2,782,528	-	-	-	-	2,782,528
Undrawn loan commitments	3,975,802	-	-	-	-	3,975,802
Total non-derivative financial liabilities	**79,532,544**	**2,754,185**	**2,876,449**	**374,971**	**188,747**	**85,726,896**
Forward contracts, net amount	9,233	-	-	-	-	9,233
Amount due under the contract	8,066,971	-	-	-	-	8,066,971
The amount under the contract to be received	(8,057,738)	-	-	-	-	(8,057,738)
Derivative financial liabilities	**9,233**	**-**	**-**	**-**	**-**	**9,233**
TOTAL FINANCIAL LIABILITIES	**79,541,777**	**2,754,185**	**2,876,449**	**374,971**	**188,747**	**85,736,129**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

For the purposes of preparing the disclosure, the Bank took into account the basic contractual condition, namely, the possibility of early termination of the deposit agreement. The amount of deposit agreements that can be terminated early at the request of the client is presented in the corresponding basket "up to 1 month", and the accrued interest on these agreements was adjusted (reduced) in the amount of UAH 188,352 thousand in 2022 and UAH 123,551 thousand in 2021.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2021 Total
FINANCIAL LIABILITIES						
Due to others banks	1,067	95	58	145	88	1,453
Customer accounts	52,640,574	1,927,856	2,283,711	161,218	15,495	57,028,854
Other borrowed funds	176	-	-	-	-	176
Other financial liabilities						
Lease liabilities	24,344	17,034	104,777	261,971	173,680	581,806
Other financial liabilities	656,108	-	-	-	-	656,108
Financial guarantees issued and similar commitments	3,194,318	-	-	-	-	3,194,318
Undrawn loan commitments	9,772,028	-	-	-	-	9,772,028
Total non-derivative financial liabilities	**66,288,615**	**1,944,985**	**2,388,546**	**423,334**	**189,263**	**71,234,743**
Forward contracts, net amount	4	-	-	-	-	4
Amount due under the contract	5,456	-	-	-	-	5,456
The amount under the contract to be received	(5,452)	-	-	-	-	(5,452)
Derivative financial liabilities	4	-	-	-	-	4
TOTAL FINANCIAL LIABILITIES	**66,288,619**	**1,944,985**	**2,388,546**	**423,334**	**189,263**	**71,234,747**

24. Risk management policies (continued)

Market risk

Risk substance. Market (price) risk is defined as a probability of losses, or extra costs incurred, or a failure to achieve planned income due to unfavourable changes in market indicators such as foreign currency exchange rates, interest rates, market prices for financial instruments held by the Bank

***Objective of market risk management*.** The objective of market risk management is to create a possibility to earn profits from fluctuations in the market indicators simultaneously limiting potential losses that could jeopardize the Bank's profitability and safe functioning.

***Risk management policies*.** Market risks are managed at two levels: at the level of the OTP Group and locally. OTP Group determines the appetite to the risk, while the Bank's management is responsible for the operation of the process of identification, detection, measurement, controlling and reporting on market risk, as well as compliance with the NBU requirements for risk management.

The Bank's highest collegiate body in charge of market risk management is the Asset-Liability Management Committee, which is set up by the decision of the Bank's Supervisory Board.

In addition to the existing risk factors that are beyond management's direct control and level of their volatility, the necessary precondition of market risk is the existence of open position determining a sensitivity level of the financial institution to fluctuations of market indicators. Considering insignificant amounts of investments in securities with non-fixed returns and property and equipment, management is mainly focused on managing interest rate and foreign currency risks belonging to the group of market (price) risks.

Assets and Liabilities Management Committee determines the strategy for managing market risk basing on the OTP Group's approaches and approves it in the form of interest rate and foreign currency risk management policies as a part of Policy on managing liquidity, interest rate risk in the Banking book and market risks of OTP BANK JSC.

Risk management is defined as determining a tolerance level to a respective risk, i.e. the maximum permissible losses from fluctuations in market indicators, and establishing limits to the amount of the respective open positions the Bank is exposed to.

Risk management strategy is realized through coordinated management of open positions due to changes in the financial market situation.

***Risk management processes*.** Internal market risk management processes covers whole risk management cycle and includes: risk identification, risk measurement, risk management, monitoring and control over compliance with established limits, reviewing and evaluating the effectiveness of approaches, tactics and strategic of risk management.

24. Risk management policies (continued)

Interest rate risk. Interest rate risk is a possibility of loss or additional costs or failure to achieve planned profitability due to unfavourable changes in interest rates

The main objective of interest rate risk management is to limit the negative impact of changes in interest rates on the Bank’s capital and net interest income by managing the structure of interest bearing assets and liabilities in a coordinated manner and setting up restrictions of minimum/maximum interest rates for interest bearing assets/liabilities. Policy on managing liquidity, interest rate risk in the Banking book and market risks describe the main criteria for management and control of the Bank’s interest rate risk.

The Bank performs identification of risk sources through the analysis of the existing structure of interest-bearing assets and liabilities. Analysis of interest gaps by remaining maturities (for fixed interest rate assets and liabilities) or by next interest rate change dates (for floating interest rate assets and liabilities or variable interest rate instruments) is convenient for determining positions that expose the Bank to interest rate risk.

The Bank quantifies interest rate risk as a change in the economic value of equity and in the net interest income calculated for 6 short-term and long-term interest rate change scenarios. Estimates of interest rate risk is performed for all interest-bearing on-balance and off-balance positions of the Bank.

The Bank's Risk Appetite Statement for 2022, in order to control the amount of interest rate risk, sets limits on the maximum level of changes in the economic value of capital and net interest income, determined by quantifying interest rate risk due to interest rate change scenarios.

The Bank's interest rate risk management is centralized at the level of the ALCO and has a medium- and long-term nature of a gradual change in the balance sheet structure regarding the bank's vulnerability to interest rate risk. The Bank mitigates interest rate risk by:

- purchase/sale of financial instruments, including derivatives, with hedging purposes;
- designing new banking products for clients with desired repricing characteristics;
- changing tenors of investments into sovereign T-bills, depending on expected changes in the interest rates.

Choice of a particular risk mitigation method depends on available market options and Ukrainian banking regulation.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Monitoring of weighted average nominal interest rates of interest-bearing financial instruments as at 31 December 2022 and 2021 was as follows:

					31 December 2022, (%)
	UAH	**USD**	**EUR**	**Other currencies**	**Interest rate**
FINANCIAL ASSETS					
Loans and advances to banks	-	0.35	0.18	(0.17)	Fixed/variable
Loans and advances to customers	19.95	6.36	4.33	4.35	Fixed/variable
Investments in securities					
Investments at fair value through other comprehensive income	11.38	3.90	-	-	Fixed
Investments at amortized cost	23.00	4.47	-	-	Fixed
FINANCIAL LIABILITIES					
Due to others banks	4.40	-	-	-	Fixed/variable
Other borrowed funds	-	-	-	-	-
Customer accounts:					
Current accounts and deposits repayable on demand	6.71	0.01	-	-	Fixed/variable
Term deposits	11.51	0.10	0.01	0.01	Fixed
Lease liabilities	13.10	14.46	-	-	Fixed

					31 December 2021, (%)
	UAH	**USD**	**EUR**	**Other currencies**	**Interest rate**
FINANCIAL ASSETS					
Loans and advances to banks	9.36	(0.21)	0.09	(0.13)	Fixed/variable
Loans and advances to customers	14.62	3.43	3.53	5.50	Fixed/variable
Investments in securities					
Investments at fair value through other comprehensive income	13.47	3.81	-	-	Fixed
Investments at amortized cost	8.68	-	-	-	Fixed
FINANCIAL LIABILITIES					
Due to others banks	10.95	-	0.10	-	Fixed/variable
Other borrowed funds	-	-	-	-	-
Customer accounts:					
Current accounts and deposits repayable on demand	3.54	0.01	-	-	Fixed/variable
Term deposits	6.63	0.15	0.04	0.01	Fixed
Lease liabilities	11.92	5.70	-	-	Fixed

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

The following table presents the sensitivity of net interest income to changes in interest rates.

The effect on profit or loss was as follows:

	31 December 2022				
	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Total**
Impact on interest income					
Interest-bearing assets	65,135,956	4,211,546	9,299,559	3,608,132	82,255,193
including: fixed rate	57,897,743	3,983,672	8,199,480	3,608,132	73,689,027
variable rate	7,238,212	227,874	1,100,079	-	8,566,165
Interest-bearing liabilities	72,174,175	2,731,897	2,819,555	405,833	78,131,460
including: fixed rate	65,024,908	2,731,897	2,819,555	405,833	70,982,193
variable rate	7,149,267	-	-	-	7,149,267
GAP	**(7,038,219)**	**1,479,649**	**6,480,004**	**3,202,299**	**4,123,733**
including: fixed rate	(7,127,165)	1,251,775	5,379,925	3,202,299	2,706,834
variable rate	88,946	227,874	1,100,079	-	1,416,899
Impact of changes in interest rates on net interest income:					
+100 b.p.	**(67,393)**	**12,303**	**24,233**	**-**	**(30,857)**
including: fixed rate	(68,245)	10,409	20,119	-	(37,717)
variable rate	852	1,895	4,114	-	6,860
-100 b.p.	**67,393**	**(12,303)**	**(24,233)**	**-**	**30,857**
including: fixed rate	68,245	(10,409)	(20,119)	-	37,717
variable rate	(852)	(1,895)	(4,114)	-	(6,860)

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	31 December 2021				
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Impact on interest income					
Interest-bearing assets	28,257,350	7,556,398	17,781,485	9,825,337	63,420,570
including: fixed rate	13,718,743	7,279,424	16,285,221	9,825,337	47,108,725
variable rate	14,538,607	276,974	1,496,264	-	16,311,845
Interest-bearing liabilities	52,680,343	1,941,257	2,340,623	506,624	57,468,847
including: fixed rate	42,897,974	1,941,257	2,340,623	506,624	47,686,478
variable rate	9,782,369	-	-	-	9,782,369
GAP	**(24,422,994)**	**5,615,141**	**15,440,863**	**9,318,713**	**5,951,723**
including: fixed rate	(29,179,231)	5,338,167	13,944,599	9,318,713	(577,752)
variable rate	4,756,237	276,974	1,496,264	-	6,529,475
Impact of changes in interest rates on net interest income:					
+100 b.p.	**(233,859)**	**46,690**	**57,745**	**-**	**(129,424)**
including: fixed rate	(279,401)	44,387	52,149	-	(182,865)
variable rate	45,542	2,303	5,596	-	53,441
-100 b.p.	**233,859**	**(46,690)**	**(57,745)**	**-**	**129,424**
including: fixed rate	279,401	(44,387)	(52,149)	-	182,865
variable rate	(45,542)	(2,303)	(5,596)	-	(53,441)

The following table presents the sensitivity analysis of the change in fair value of investments at fair value through other comprehensive income and included in the Level 2 and Level 3 fair value hierarchy to changes in the discount rates used to measure their fair value.

The effect on other comprehensive income/loss and equity was as follows:

	As at 31 December 2022		As at 31 December 2021	
	Discount rate +1	Discount rate -1	Discount rate +1	Discount rate -1
Change in fair value of investments at FVTOCI	(14,385)	14,471	(44,914)	45,541
Impact on other comprehensive income/loss and equity	**(14,385)**	**14,471**	**(44,914)**	**45,541**

24. Risk management policies (continued)

Foreign currency risk.
Risk substance. Foreign currency risk arises from adverse fluctuations in foreign exchange rates that affect assets, liabilities and off-balance sheet items.

***Objective of market risk management*.** The objective of foreign currency risk management is to create a possibility to earn profits from fluctuations in foreign exchange rates simultaneously limiting potential losses that could jeopardize the Bank's profitability and safe functioning.

***Risk management policies*.** Risk management process includes identification, measurement, monitoring and controlling, mitigation and reporting on foreign currency risk.

Identification of foreign currency risk is performed during risk analysis of new products.

Foreign currency risk measurement includes the calculation of historical VaR (Value-at-risk), ES (expected shortfall) and actual profit/loss due to holding of open FX position. Historical VaR calculation is performed with 99% confidence level under assumption of holding the positions over 1 day. Calculation is performed basing on one year daily observations (252 trading days) and using exponentially weighted moving average to derive historical VaR estimation.

Monitoring and control over foreign currency risk involves comparing the obtained results of risk measurement with the established limits that correspond to the Bank's risk appetite for foreign currency risk.

Currency risk limits includes:
- position limits for individual currencies and the total open foreign currency position, both intraday and overnight;
- VaR limit and Stressed VaR-limit;
- ES-limit;
- Daily, quarterly and annual Stop-loss limits.

Foreign currency risk mitigation is done mainly by means of changing size of open positions, reducing them or completely closing them in the absence of market instruments for hedging.

Reporting on foreign currency risk is performed on a monthly basis to the ALCO and to the Management Board of the Bank, quarterly - to the Supervisory Board. The package of reports contains a quantitative assessment of foreign currency risks, information on the size of open positions and the status of compliance with the established limits of foreign currency risks and authorized excesses.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

The Bank's exposure to foreign currency exchange rate risk is presented in the tables below:

	UAH	USD	EUR	Other currencies	Precious metals	31 December 2022 Total
FINANCIAL ASSETS						
Cash and cash equivalents	4,453,586	171,072	112,275	12,327	-	4,749,260
Loans and advances to banks	246,365	3,758,598	16,867,904	777,884	69,841	21,720,592
Loans and advances to customers	20,323,349	7,897,423	1,667,238	4,890	-	29,892,900
Investments in securities						
Investments at fair value through other comprehensive income	1,014,654	1,591,940	-	-	-	2,606,594
Investments at amortized cost	28,466,717	1,779,278	-	-	-	30,245,995
Other financial assets	314,092	13,808	2,526	-	-	330,426
TOTAL FINANCIAL ASSETS	**54,818,763**	**15,212,119**	**18,649,943**	**795,101**	**69,841**	**89,545,767**
FINANCIAL LIABILITIES						
Due to others banks	68	163	-	-	-	231
Customer accounts	41,378,697	23,913,229	11,587,006	793,619	63,909	77,736,460
Other borrowed funds	159	-	-	-	-	159
Other financial liabilities						
Lease liabilities	113,009	329,422	-	-	-	442,431
Other financial liabilities	480,864	91,590	48,098	7,497	-	628,049
TOTAL FINANCIAL LIABILITIES	**41,972,797**	**24,334,404**	**11,635,104**	**801,116**	**63,909**	**78,807,330**
CURRENCY POSITION	**12,845,966**	**(9,122,285)**	**7,014,839**	**(6,015)**	**5,932**	
Accounts payable on contracts with derivative financial instruments	(1,756,909)	-	(8,783,451)	-	-	(10,540,360)
Accounts receivable on contracts with derivative financial instruments	-	10,534,373	-	-	-	10,534,373
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(1,756,909)**	**10,534,373**	**(8,783,451)**	**-**	**-**	
NET POSITION	**11,089,057**	**1,412,088**	**(1,768,612)**	**(6,015)**	**5,932**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	UAH	USD	EUR	Other currencies	Precious metals	31 December 2021 Total
FINANCIAL ASSETS						
Cash and cash equivalents	3,380,047	288,241	190,825	11,050	-	3,870,163
Loans and advances to banks	293,500	7,673,189	587,951	530,406	44,345	9,129,391
Loans and advances to customers	29,670,003	9,033,169	1,749,152	8,134	-	40,460,458
Investments in securities						
Investments at fair value through other comprehensive income	5,182,261	2,489,418	-	-	-	7,671,679
Investments at amortized cost	6,956,240	-	-	-	-	6,956,240
Other financial assets	111,756	5,492	1,733	-	-	118,981
TOTAL FINANCIAL ASSETS	**45,593,807**	**19,489,509**	**2,529,661**	**549,590**	**44,345**	**68,206,912**
FINANCIAL LIABILITIES						
Due to others banks	5	122	1,098	-	-	1,225
Customer accounts	34,991,488	14,531,166	6,947,888	544,295	50,160	57,064,997
Other borrowed funds	176	-	-	-	-	176
Other financial liabilities						
Lease liabilities	127,409	322,759	-	-	-	450,168
Other financial liabilities	597,521	29,888	24,623	4,076	-	656,108
TOTAL FINANCIAL LIABILITIES	**35,716,599**	**14,883,935**	**6,973,609**	**548,371**	**50,160**	**58,172,674**
CURRENCY POSITION	**9,877,208**	**4,605,574**	**(4,443,948)**	**1,219**	**(5,815)**	
Accounts payable on contracts with derivative financial instruments	(3,088)	4,596,668)	-	-	-	(4,599,756)
Accounts receivable on contracts with derivative financial instruments	121,259	-	4,486,869	-	-	4,608,128
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**118,171**	**(4,596,668)**	**4,486,869**	**-**	**-**	
NET POSITION	**9,995,379**	**8,906**	**42,921**	**1,219**	**(5,815)**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Foreign currency risk sensitivity. The following table details sensitivity of the Bank's financial performance and equity to 10% (31 December 2021: 10%) increase and decrease in USD and EUR official exchange rate against UAH. 10% (31 December 2021: 10%) is the sensitivity rate used by the Bank when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for 10% (31 December 2021: 10%) change in foreign currency rates.

	31 December 2022		31 December 2021	
	UAH/USD +10	**UAH/USD -10**	**UAH/USD +10**	**UAH/USD -10**
Impact on profit or loss and equity	115,791	(115,791)	730	(730)

	31 December 2022		31 December 2021	
	UAH/EUR +10	**UAH/EUR -10**	**UAH/EUR +10**	**UAH/EUR -10**
Impact on profit or loss and equity	(145,026)	145,026	3,520	(3,520)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the separate statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical way.