JOINT STOCK COMPANY
OTP BANK

Annual Report
for the Year Ended 31 December 2023

JOINT STOCK COMPANY OTP BANK

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1. ADDRESS BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear colleagues,

Waves of acquisitions in recent years have led to the rapid growth of OTP Group, which has now become one of the fastest growing and one of the leading banking groups in Central and Eastern Europe, and now also in Central Asia. The year 2023 opened a new page in the history of OTP Group, as it was in 2023 that OTP Bank entered the Central Asian region by acquiring the Uzbek Ipoteka Bank, the country's fifth largest financial institution. Uzbekistan became the first country in the Central Asian region where the Group is expanding its presence.

In the CEE region, OTP Group successfully completed the acquisition of Nova KBM Group in Slovenia in 2023. The purchase of NKBM became the most sizeable acquisition in the history of OTP Group, which allowed the group to become the market leader in the fifth country of the CEE region. Also in 2023, OTP Group strengthened its position on the Serbian capital market by acquiring the asset management company ILIRIKA.

Our main tasks for 2023 were not limited to expanding the Group's presence and growth. The fruitful and effective work of OTP Group in the countries of presence in 2023 was proved by a number of prestigious professional awards. In 2023, OTP Group member banks were recognized as Bank of the Year in Albania, Croatia, Montenegro and Slovenia by The Banker 2023 Bank of the Year Awards. Also, member banks of the OTP Group were recognized by the Euromoney Awards for Excellence 2023 in the following categories: Best Corporate Bank in Hungary, Best Digital Solutions Bank in Hungary, Best Digital Solutions Bank in Croatia, Best ESG Bank in Croatia, Best CSR Bank in Romania, The best digital solutions bank in Montenegro (CKB Bank). Along with this, Global Finance released the 24th annual ranking of the World's Best Foreign Exchange Banks. OTP Group member banks have received awards in Bulgaria, Hungary and Serbia: DSK Bank, Bulgaria, OTP Bank, Hungary and OTP banka, Serbia.

In 2023, OTP Bank in Ukraine achieved operational stability, focused on the development of banking products, attracting new customers and investing in IT solutions. Despite all the challenges of wartime, OTP Bank in Ukraine continued to support micro, small and medium-sized Ukrainian businesses, provide financing for large corporate enterprises and actively work with international institutions EBRD, IFC, USAID.
OTP Group highly appreciates the results demonstrated by OTP Bank in Ukraine in 2023 and is optimistic about its further development and growth.

András Kuhárszki
Chairman of the Supervisory Board of OTP BANK JSC, Ukraine

2. ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear colleagues,

For Ukraine as a whole and for OTP Bank in particular, 2023 was full of challenges and the need to adapt to new realities in the macro environment, military risks, and changes in regulatory policy. Thanks to our hard work, our team successfully coped with these challenges, implemented many powerful and important projects, and consequently, we received a significant financial result.

Clients, the main value of our Bank, continue to trust us with their savings and choose us as a financial partner for servicing the business, and we do our best to offer timely solutions, convenient modern service and maintain the position of one of the largest Ukrainian banks with foreign capital, a recognized leader in the financial sector. All important and popular developments were implemented in a record level of NPS; the Net Promoter Score is 58%.

Last year, the Bank focused its efforts on resuming corporate and retail lending, which was our contribution to supporting the Ukrainian economy. Since the beginning of the full-scale invasion, sales of credit products to OTP Bank's corporate clients have decreased by 4 times compared to 2021, and a gradual recovery has already begun in 2023. In November 2023, the level of new signed loan agreements exceeded UAH 1 billion.

We have become a reliable partner for international partners to distribute grants and access concessional lending programs for Ukrainian businesses. We have deepened cooperation and launched a number of new projects with international institutions EBRD, IFC, USAID. OTP Bank became the first bank in Ukraine to enter into a grant agreement with the U.S. Agency for International Development, USAID.

The current policy of our activities has justified itself, so we have a high assessment from the regulator. According to the results of the sustainability assessment conducted by the National Bank of Ukraine, OTP Bank entered the top three banks in terms of capital adequacy and financial stability. Thus, according to the indicators of Asset Quality Review (AQR), the Bank's capital adequacy ratio (R3) amounted to UAH 7 billion 234 million, or 19.09%, and regulatory capital (R2) amounted to UAH 12 billion 315 million, and its adequacy ratio is 32.5% with the required level of 10%. Also last year, the Bank received a number of awards, including from Visa, Commerzbank, Finawards and Financial Club.

The Bank increased its investment in IT and continued to introduce the latest technologies that can significantly speed up work processes. The OTP Bank UA app is focused on daily banking, lending and investment has become “gentler” and has been expanded with new functionality. OTP Bank became the first bank to open up the opportunity for its clients to buy domestic government loan bonds (government bonds) directly at auctions of the Ministry of Finance of Ukraine through a mobile application. Our Click OTPay was recognized as the best online banking for legal entities by the influential SME Banking Club. In the digitalization and development of security services, we will also present many breakthrough solutions.

The Bank actively participates in charitable activities. Under the general idea of OTP Bank Helps Ukraine, we joined the financing of the installation of a Trident on the Motherland Monument, the purchase of medical helicopters, assistance to orphanages and medical institutions. OTP Bank was the first bank to implement a charity auction in favor of the Superhumans Center Rehabilitation Center in the OTP Bank UA mobile app. We plan to further develop the concept of emotional banking, so that our clients have the opportunity to be involved in significant initiatives, implement charity projects, and feel like a driving force that changes the world for the better.

In Ukraine, there is still a significant level of uncertainty in all areas. It is extremely difficult to make long-term forecasting under such conditions. However, as a Bank, we can rely on the significant experience of successfully surviving the crisis years, we are talking about nationwide quarantines during the COVID-19 epidemic, when operational approaches to work radically changed, and the incredibly difficult for Ukrainians 2022-year, year of the beginning of a full-scale war. Having accumulated knowledge and skills on how to act in unforeseen circumstances, the Bank's team is ready to develop and achieve goals in various circumstances. Our plans include further cooperation with international grant-giving organizations – the EBRD, IFC, USAID and participation in government economic recovery programs. We will continue to finance Ukrainian businesses and expand our product and service line for both retail and corporate clients.

Volodymyr Mudryi
Chairman of the Management Board of OTP BANK JSC

3. MACROECONOMIC ENVIRONMENT

Despite the resilience of the global economy after the crisis of the COVID-19 pandemic and the shocks after Russia's invasion of Ukraine, as well as significant progress in reducing inflation in the world compared to the peaks of 2022, the overall recovery of the world's economies remains relatively sluggish, especially in developing countries.

Overall, at the global level, there is a tendency for aggregate demand to cool down due to an additional number of long-and medium-term factors. After Russia's invasion of Ukraine, financial and commodity markets entered a phase of high volatility due to a new round of sanctions regimes and changes in commodity supplier countries, but during 2023, lower inflation and global energy demand led to stabilization of world prices.

Growing geopolitical divisions between economically developed countries and developing regions are leading to a reduction in world trade and a redistribution of major trading partners, which has reduced the flow of capital investment to developing countries. Russia's war against Ukraine remains a key challenge in the world and fragments the economic unity of countries amid the global confrontation between the United States and China, while Iran continues to militarize radical groups in its search for a change in its status quo in the Middle East, which leads to destabilization of trade and political order in the region.

Additional factors stifling business activity and cross-border trade are the medium-term effects of tightening monetary policy among the world's key central banks, which was necessary to lower inflation in 2021-2022, as well as ending post-COVID fiscal support for economies amid a growing burden on sovereign debt.

Major financial institutions believe that global economic growth in 2023 slowed even more after growing by 3.5 percent in 2022. Forecast expectations for last year remain below the historical average annual global economic growth of 3.8 percent. For advanced economies, 2023 had mixed results. First of all, against the background of a larger-than-expected economic momentum in the United States, which was driven by a disinflationary trend against the background of strong demand for labor. On the other hand, growth in the euro area was weaker than expected due primarily to high inflation rates in Central and Eastern Europe, lower demand for heavy industry products in Germany, and a generally weaker labor market than in the United States. Such trends took place against the background of a temporary decline in financial stability in the banking sector in Switzerland and the United States. Emerging market economies are expected to have moderate economic growth, but better than in Europe in 2023.

As in 2022, the real estate crisis and weaker demand for consumer goods from the export sector in China, as well as the fading momentum of the Chinese economy gained in the 1990s through market reforms, remain the main factors hindering economic development in developing countries. This, in turn, has negative consequences for almost the entire Pacific Region, as well as holding back increased demand for commodities, which further hinders price growth in global commodity markets. Given that China is entering a multi-year cycle of slow economic growth due to problems with the real estate sector and a new round of trade war with democratic countries, one may not be afraid of new trade shocks in commodity markets, but this will significantly slow down the improvement of economic conditions in the world.

An additional positive factor in such conditions is also the base prepared by the European Union regarding the rejection of energy carriers from Russia, which will also add stability to global commodity markets. While key central banks have yet to show a visible desire to cut interest rates, even a potential cut this year will provide a positive mood in global financial markets. The United States presidential election will be a key event at the end of 2024, and the real possibility of an isolationist president being re-elected could lead to a series of trade protectionist acts by the world's largest economy, leading to much bigger problems in the world in the medium and long term.

4. MAIN TRENDS OF THE UKRAINIAN ECONOMY

Overcoming the Consequences of War

Since Russia's invasion in February 2022, Ukraine has experienced terrible destruction and suffering. According to the UN, tens of thousands of people have been killed or injured, 8.1 million have been displaced to European countries, and 5.4 million have become internally displaced (UNHCR, 2023). The World Bank estimates that the proportion of Ukrainians living in poverty rose from 5.5 percent to 24.1 percent (pushing another 7.1 million people into poverty) as a result of the war, and pushed economic progress back for 15 years. According to the expectations of the National Bank of Ukraine, gross domestic product is likely to grow by only 5.7% last year after reduction by 29.1% in 2022. This growth was due to the resumption of household demand, more stable electricity supply in contrast to the winter of 2022-2023, increased public spending, as well as constant financial and political support from the friend-countries of Ukraine and International Financial Institutions.

The main event in the financial support of Ukraine was the adoption by the IMF Executive Board of the extended financing program in the amount of USD 15.6 billion. In 2023, the IMF's efforts were aimed at maintaining macroeconomic and financial stability during the war. But the IMF's long-term goal is to maintain fiscal, external, price and financial stability in an extremely high level of uncertainty and restore debt sustainability in the short term. Therefore, this financial assistance is more focused on promoting reforms and strengthening institutions in order to stimulate sustainable long-term economic growth against the backdrop of the post-war recovery and Ukraine's acquisition of EU membership. This program is a key part of the overall package of support for Ukraine by international partners in the amount of USD 115 billion.

The main long-term partner in the reconstruction of the real sector of Ukraine was the expansion of the World Bank's activities in 2023, which created the Ukraine Relief, Recovery, Reconstruction and Reform Multi-Donor Trust Fund (URTF), which receives external investment and all major financial assistance from Ukraine's partner-countries. This assistance is aimed at restoring the damaged economic landscape caused by the war. The World Bank receives investments to urgently repair energy infrastructure, roads, bridges, housing, schools and clinics, as well as to provide basic services to the population. Given that in 2023, Ukraine faced an additional funding deficit of USD 11 billion for critical economic and capital expenditures, particularly in sectors such as transportation, housing, energy, social protection, and agriculture, the World Bank has mobilized about USD 38 billion in the form of emergency financing, commitments and guarantees and parallel financing from the USA, Great Britain, Canada, European countries and Japan. By November 2023, more than USD 29 billion had been paid out through World Bank projects. More than USD 20 billion was allocated to provide salaries for government and school employees, pensions for the elderly, medical services and social programs for vulnerable segments of the population. IBRD commitments and grants for fiscal year 2024 are expected to amount to approximately USD 11 billion for new and existing operations.

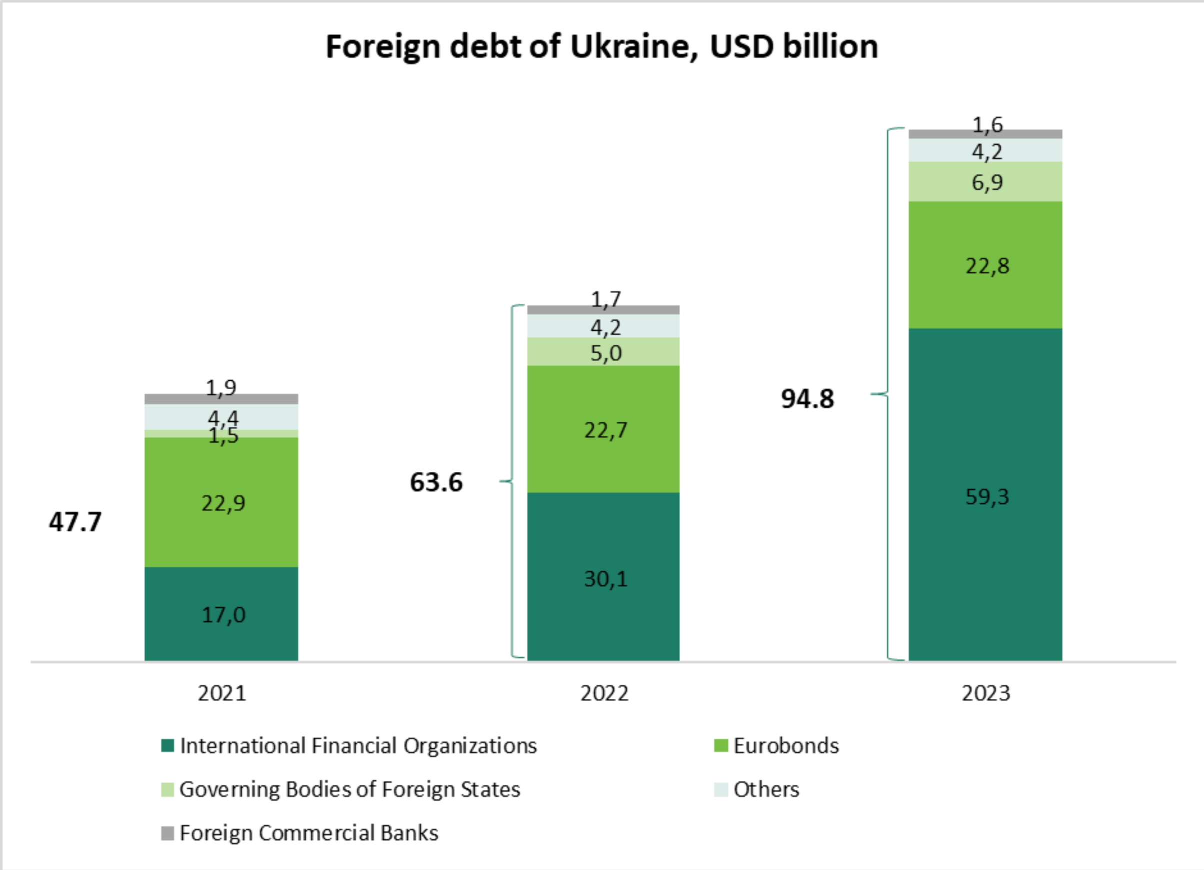
With the support of Western countries, Ukraine has ensured continuity of governance during the war through a number of projects that help meet financial needs to pay for civil servants, teachers and rapid response services, pay for medical services and finance social assistance programs. In total, the number of people who receive assistance is more than 13 million people, including 10 million pensioners, 500 thousand employees of educational institutions, 145 thousand civil servants, 56 thousand rapid response workers (Ministry of Emergency Situations and medical institutions) and more than 3 million recipients of social assistance. Thanks to the support of Ukraine's partner-countries, the government continues to perform 100 percent of its basic functions, 98 percent of pensions were paid on time, and more than 90 percent of civil servants received their salaries on time.

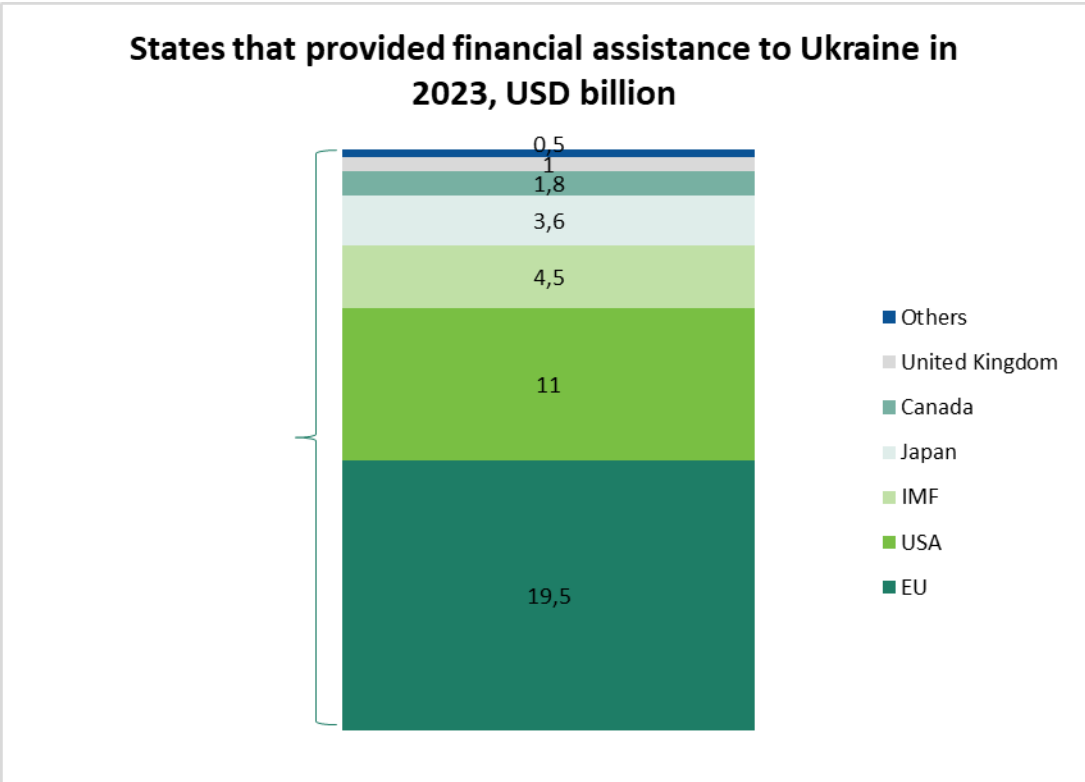
Given the difficult conditions that Ukraine found itself in at the beginning of 2024, it is difficult to downplay the importance of the support of Western countries and partners for our country. And the key and biggest risks for the future of our country lie precisely in this plane. At the moment, the reality is that the fiscal path that Ukraine is currently following is possible only with significant external assistance. A decrease in the rate of this assistance will lead to negative consequences, primarily in the sectors of social support and protection of the population, payment of salaries to state employees of the Ministry of Emergency Situations, medicine, teachers and the education sector as a whole, the inability to restore damaged infrastructure and public utilities, and, finally, to a drop in overall economic well-being. However, a positive factor is the approval by the EU in the first decade of February of long-term plans for the restoration of Ukraine in the amount of EUR 50 billion. It is also important for Ukraine to comply with the terms of the Memorandum with the IMF, the vanguard of all external financial assistance from Western countries. We expect that Ukraine, as an executive and legislative power, will continue to meet our partners halfway in the future, which will provide significant fiscal support to the country's budget and pave the way for becoming a full member of the European Union.

The second integral part of our country's success is the Armed Forces of Ukraine. The United States and NATO allies have largely provided comprehensive support to our Armed Forces. The temporary decline in military support at the beginning of 2024 already leads to the suppression of the tactical and technological superiority of the Armed Forces of Ukraine over the aggressor, which has a significant advantage in both human and material resources, which in the short term can lead to a local deterioration of the situation at the front and heavy losses among the Armed Forces of Ukraine in the medium term. The US presidential election, which has not yet begun, is already leading to the risks of reducing military support for Ukraine. Potential reformatting of foreign policy through the coming to power of isolationist forces and possible populism among US lawmakers to satisfy political ambitions could lead to a key security risk – the catastrophic state of the Armed Forces of Ukraine and Ukraine in the war.

Financing of the Budget of Ukraine

After extreme conditions in the local financial market in 2022, when the Ministry of Finance of Ukraine was acutely aware of the need for rapid accumulation of money for the budget needs of the army and social payments, 2023 was a year of significant normalization and clearer predictability of budget filling, as well as an increased presence of grants and loans from partner-countries of Ukraine. Last year, the NBU refused to directly finance the budget through the purchase of government bonds, which had a positive impact on reducing the risks of the financial system and stabilizing inflation, but put MF in a position where domestic loans had to be carried out on market conditions.
The presence of external donors in financing the budget of Ukraine increased even more in 2023. External debt increased by 33% YoY to USD 94.8 billion (in 2022, the increase in external debt was 25% YoY, reaching USD 63.59 billion), which is two-thirds of the total national debt. The largest creditors of the state budget of Ukraine since the beginning of the war were the European Union and the World Bank, which increased funding to USD 32.9 billion out of USD 17.8 billion, respectively.





Ukraine's domestic debt increased by 9% last year and is USD 43 billion (UAH 1,587 billion), consisting entirely of government bonds. Last year, the weighted average maturity of government bonds took on a healthier form, as MFIs went to increase yields and most securities were issued with maturity in 1-3 years, in contrast to 2022, where

2/3 of all issued government bonds had maturities of up to one year. It should be noted here that the change in the term structure of the yield curve coincided with the news about the counterattack of the Armed Forces of Ukraine, but by the end of the year, against the background of a slowdown in the progress of hostilities, at the initial auctions of government bonds, there was a decrease in investor interest in medium-term securities, as well as a decrease in interest in government bonds in general as a result of a decrease in yields. Banks continue to be the main buyers of government bonds and increased their investments by UAH 172 billion in 2023 occupying 42% of the market share. The NBU continues to have the largest market share of 44% due to increased purchases of government bonds in 2022.

Considering the allocation of EUR 50 billion from the European Union can be said with a certain degree of confidence,
that the necessary funding for the state budget of Ukraine will be received this year. It should be added that the banking system has sufficient demand to meet the necessary issue of government bonds from the Ministry of Finance of Ukraine for this budget year. Unfortunately, external financing has not yet been formed after 2024, which creates some uncertainty. In this case, it is necessary to monitor how the confiscated assets of the aggressor state will be redistributed in favor of Ukraine, since these assets are likely to become a long-term resource for financing the budget of Ukraine.

Real Sector

Despite the rather high unemployment caused by the war, which reached 19% last year, economic growth in Ukraine was supported by the recovery of household consumption after the shock of 2022, which was driven by a better labor market.

Significant budget expenditures spent on labor remuneration, monetary support for military personnel and social protection against the background of disinflationary dynamics were key factors for the growth of household consumption. The positive dynamics of increased household demand also affected other sectors of the economy: increased the occupancy rate of shopping and entertainment complexes, grew the market for renting retail space and domestic tourism, and significantly recovered the service sector and passenger transportation. The factor of recovery of consumption contributed to increasing the adaptability of business to military conditions, as evidenced by both positive expectations of enterprises and better financial results of enterprises compared to last year in such areas as real estate operations, retail, food, transportation and light industry.

State financing, along with private consumption, has become an important factor in economic recovery and the fight against the aggressor. In 2023, all tax revenues were allocated from the state budget for the needs of the army. Almost UAH 1 trillion (USD 25.8 billion) were paid for salaries of Ukrainian military personnel that represents a third of all government spending in 2023, also about UAH 600 billion was used for training and technical support of the defenders of Ukraine.

The last part of the State Budget expenditures in the amount of UAH 1.5 trillion was allocated for social payments, salaries of state employees and infrastructure restoration, and this part was fully funded by the partner-countries of Ukraine. High budget expenditures on security and defense and other budget orders also supported the economic recovery of business activity of energy enterprises in mechanical engineering and metallurgy.

Capital expenditures of the budget for the implementation of restoration projects and, in part, private investment led to the development of logistics infrastructure, which led to an increase in the volume of construction work and an increase in the production of building materials. Due to the improvement of expectations of agricultural companies, their investments were directed to the expansion of logistics and laying new western supply routes, as well as to the processing of raw goods and new infrastructure for storing agricultural products, while state investments were directed to the restoration of the energy extraction industry.

The agricultural sector remains one of the main export-oriented sectors of the economy, but the dynamics remain depressed due to difficulties with the end of the "grain corridor" in early 2023 and the blockade of the border by Poland and Hungary. Positive factors were higher yields of major crops than last year and faster harvesting rates due to extremely favorable weather conditions. Thus, the yield of early grain exceeded last year's, while the sown areas of most crops remained almost at the level of the previous year. The best yields led to significant agricultural growth last year after a significant decline in 2022. In conditions of limited export opportunities, the excess of raw agricultural products led to an increase in workload and increased activity of food industry enterprises. Raw food processing enterprises were given a new impetus by increasing the production of vegetables from the southern and central regions of the country. This, together with favorable weather conditions, compensated for the negative impact of the destruction of the Kakhovka Hydroelectric Power Plant on the activities of agricultural enterprises.

The situation in the energy sector remains difficult, but more stable than a year ago, and is able to support the economic activity of businesses and the population. The damage caused to Ukraine's energy sector during the war is estimated at USD 12 billion, moreover, in the winter of 2022-2023, more than 50 percent of Ukraine's energy infrastructure was damaged. However, the energy sector of Ukraine was also supported by the situation at the global level, where the decline in mineral production among OPEC+ countries did not have a significant effect on the increase in commodity prices, which is an indicative indicator of the slowdown in global economic growth last year and the oversupply of energy carriers in Europe. This led to the fact that when Ukraine was experiencing a shortage of its own electricity generation capacity, the EU countries freely exported energy carriers to Ukraine, smoothing out the negative effects of the war on businesses and households.

With the exception of the consequences of military operations and their impact on economic development, the structurally deformed labor market remains an important challenge for Ukraine. Millions of people left the country and millions more became internal migrants, which freed up jobs in some parts of the country, and increased competition for vacancies in other, safer parts of Ukraine. It also coincided with a wave of cost optimization among companies affected by the negative effects of the war. However, market normalization was already observed last year, and it is expected that in 2024 the labor market will be in a better position due to the improved economic situation and the adaptability of businesses to martial law. Normalization of the labor market will lead to an increase in consumer sentiment among such segments of the economy as retail, transport, real estate, private medicine, as well as other sectors aimed at serving or selling goods to the population. Despite a more positive outlook on the labor market and economic development in 2024, economic growth will still be slightly less robust than in 2023. This will be due to the fact that it will be more difficult for highly qualified employees to find new vacancies, especially in export-oriented companies whose products compete in world markets and require skilled labor. For such companies, the main problem will be finding new markets for goods and concluding new long-term foreign economic contracts, and these are goals that are difficult to achieve in war conditions, which in turn will lead to a decrease in demand for skilled labor. Export-oriented industries such as information technology, quarrying, metal smelting, civil engineering and, to a certain extent, the agro-sector are expected to reduce business activity and appetite for hiring qualified personnel this year.

Balance of Payments and Foreign Exchange Market

In October, the National Bank of Ukraine abandoned the policy of fixing hryvnia exchange rate against USD in favor of more flexible currency pricing, which marked the end of the strict exchange rate policy introduced since the beginning of the full-scale invasion in February 2022. The NBU's decision was correct given the accumulated problems in the balance of payments and the increase in currency interventions against the background of trade and protectionist actions of Ukraine's neighboring countries, which became a problem for Ukrainian exports in the spring of 2023.

With the introduction of flexible pricing of hryvnia, the exchange rate strengthened to 36 during the weeks, but still weakened to 38.5 at the end of the year due to the expansion of the trade deficit. This factor was key for the expansion of the NBU interventions in the foreign exchange market in the second half of the year. The most difficult part was the 4th quarter of 2023, when the NBU sold USD 9.4 billion from gold and foreign exchange reserves, and sales totaled USD 28.8 billion last year. . However, the NBU's gold and foreign exchange reserves increased by USD 8.6 billion over the year to USD 38.5 billion, thanks to the financial assistance of Ukraine's partner-countries, as well as a result of the successfully implemented structural beacons of the Memorandum with the IMF from Ukraine.

Problems in the foreign exchange market and the expansion of the trade deficit are primarily related to the blocking of logistics of Ukrainian exports at border points by neighboring countries of Ukraine and the end of the "grain corridor" on the Black Sea. As a result, the decline in exports of goods in 2023 was 16% YoY in relation to even the more crisis-prone 2022. With higher yields, agricultural exports fell by 6.5% YoY compared to 2022. A much more painful blow was the fall in exports of mineral products and metals by 45% YoY and 34% YoY, respectively. As a result, the decline in exports led to a lack of foreign currency inflows to the country. Problems with exports coincided with an increase in imports by 11% YoY compared to last year. In the second half of 2023, machinery, equipment, vehicles and appliances, food and chemical products were actively imported, which led to an increase in imports in these segments by 15-30% YoY. The increase in imports is associated with both the stabilization of domestic consumption by the population and military needs.

Easing the protectionist and harsh political stance of Poland and Hungary in early 2024 is likely to help boost exports as early as this year, and most of last year's crop still remains in Ukraine for export opportunities as early as this year. This situation can reduce the burden on the trade balance and, in turn, reduce the NBU's currency interventions, as well as stabilize the situation in the foreign exchange market due to the inflow of export currency. The continuation of the implementation of structural beacons from the Memorandum of Ukraine and the IMF remains important, since the NBU is not able to generate currency inflows to its reserves under current market conditions, and Western financial assistance remains the only way to replenish its reserves. At the same time, the dynamics of import growth will continue this year due to the improvement of consumer sentiment of the population, as well as to support the military potential of the Armed Forces of Ukraine. In such conditions, hryvnia exchange rate may continue to devalue smoothly throughout the year, but in the absence of extreme shocks, the exchange rate is likely to remain slightly volatile.

Inflation

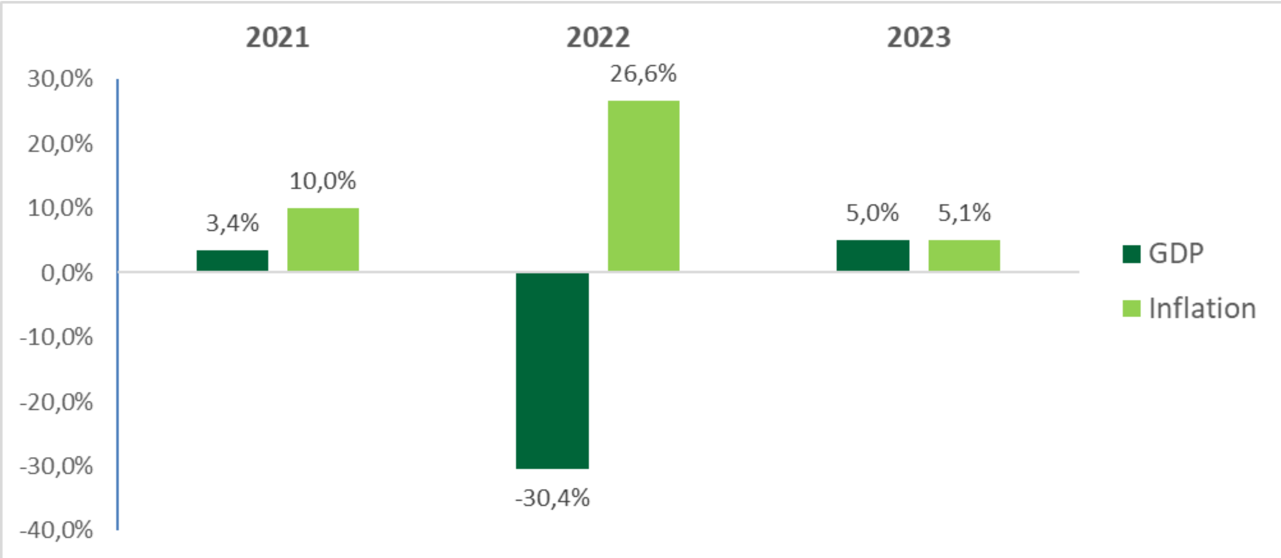
After a strong surge in inflation in 2022, triggered by a strong drop in supply due to physical destruction and relocation of production capacity, last year was diametrically opposed. The recovery of business activity and lower costs for the production of goods and services stabilized the price dynamics.

Additional factors that helped curb inflation were the actions of the National Bank of Ukraine: a tight monetary policy that helped transfer part of consumer demand from the real sector to financial assets denominated in hryvnia and helped create a liquidity surplus in the banking sector. Another measure by the NBU aimed at slowing the inflation spiral was fixing hryvnia exchange rate against USD, as well as tighter capital controls, which helped reduce the effect of inflation imports, improve negative expectations of households and businesses, and reduce the leakage of hryvnia abroad. Separately, we should add the positive impact on inflation of the moratorium on raising certain key utility tariffs, even despite the less favorable price environment in the world. Together, these factors, as well as the best yield, helped reduce inflation growth from 26.6% in 2022 to 5.1% last year.

The slowdown in the price of daily consumer goods is explained by a decrease in pressure from business costs and better yields, as well as a stable hryvnia exchange rate in the foreign exchange market. The growth of prices for flour and confectionery products, meat and fish products, etc. slowed down. Prices for all types of oil have decreased, with the exception of imported ones. Cereals, flour and sugar became cheaper as a result of low world prices for these goods, and an increase in local production. Prices for clothing and footwear, electronics, household appliances and tableware also decreased. The rise in the price of personal care products, cars, furniture, textiles, housing goods, etc. slowed down. The growth in the cost of medical, veterinary, financial services, car maintenance, Internet and mobile communications also slowed down. The increase in prices for motor transport services remained almost unchanged over the year, given the rise in fuel prices and rising wages.

On the other hand, logistics and high product storage costs remained strong pro-inflationary factors last year due to storage shortages. The rise in the price of logistics led to the resumption of growth in prices for vegetables and fruits. Services of hotels, restaurants and cafes rose more moderately under the influence of pressure from the cost of food raw materials.

In 2024, we expect moderate inflation compared to 2022 and mid-2023, due to improved inflation expectations and the NBU's still strict monetary and exchange rate policy. The effect of import inflation will be less sensitive due to the global downward trend in prices, and hryvnia exchange rate stability will further strengthen inflation expectations in 2024. A potential decline in yields will not lead to a medium-term imbalance of supply and demand, since the agricultural sector receives enough yield to meet domestic consumption. The main pro-inflationary factor will be an increase in excise taxes and a potential refusal, even partial, from administrative regulation of prices for utilities. The risk remains insufficient financial support for Ukraine from Western countries and the IMF, which may lead to a decrease in the NBU's gold and foreign exchange reserves to critical levels and, in turn, a significant devaluation of hryvnia.



Note: *GDP in 2023 according to the Ministry of Economy of Ukraine.*

5. FINANCIAL MARKETS AND BANKING SECTOR CONDITION

Taking into account the stabilization of the price level in Ukraine, the National Bank of Ukraine has started a cycle of reducing the key rate, which was at the level of 25% since mid-2022, but by the end of 2023 it was 15%. The gradual improvement of economic conditions and the stabilization of business expectations among the population also allowed the central bank to move away from the practice of a fixed hryvnia exchange rate, but the level of capital controls is still tight, although the regulator in the second half of the year began to weaken this part of supervision of the country's financial sector.

It is significant that even despite the war, Ukraine's financial sector remains stable and profitable, and is the main pillar of the country's economic recovery. Consistent monetary policy and regulation of financial markets by the National Bank of Ukraine have provided positive financial results among banking and non-banking institutions. Stabilization of the labor market, growth in household and business incomes, and accommodation reserve rates allowed us to further expand the liquidity surplus in the banking system in the context of the NBU's key rate reduction cycle.

One of the key indicators of the health of the banking system is that the liquidity surplus is observed against the background of an increase in funding due to an influx of demand for hryvnia assets. The main components of funding were deposits of households and businesses, which account for 93% of all bank deposits and collectively amount to UAH 2.4 trillion. Business deposits grew the most, reaching UAH 1.3 trillion in December, and showed an increase by 41% YoY, although the growth occurred on current accounts due to rather low deposit rates.

The key driver of the growth of business deposits was the help of Western friend-countries of Ukraine, which directed assistance to state-owned enterprises in the energy and infrastructure sectors to restore destroyed assets and ensure Ukraine's energy security after massive shelling of energy enterprises in late 2022-early 2023. There was a noticeable influx of deposits from the population on both current and term accounts. The annual growth of household deposits last year was 16% YoY and reached UAH 1.1 trillion with a noticeable flow from deposits denominated in foreign currency to hryvnia deposits due to the better profitability of hryvnia deposits. Record figures of the money supply on deposit accounts of the population in banks were due to social payments from the state to the population affected by the war, as well as an increase in the salary base in the private sector and the military.

Banks' loan portfolios are growing in terms of consumer and corporate lending, and the economic recovery has helped reduce problem debt and banks have not had to admit additional credit losses, and the default rate has significantly decreased. As with deposits, bank customers prefer to lend in UAH, while foreign currency lending decreases, which has a positive impact on the exchange rate and balance of payments. Retail loans have resumed growth since 2022, even on unsecured loans, as well as auto and home loans, but overall consumer lending is still lower than pre-war levels.

In the context of low funding costs due to the reduction of the NBU's key rate, reduced credit losses and high profitability of risk-free assets as government bonds, interest income accounted for more than 60% of the total income of the banking system. The percentage margin remained at 8%, which is a better indicator than in 2022.

The record share of interest income in banks' total income is also partly due to unchanged commission income figures. At the beginning of the great war, banks lowered their acquiring and inter-exchange rates, reducing potential commission income, and additional currency restrictions on customer transactions reduced the share of trading profits due to falling transaction volumes.

Operating and administrative expenses of banks continued to increase, but at a significantly slower pace than in 2022. First of all, the cost of labor and maintenance of fixed assets increased, which is a typical dynamic of costs during the normal functioning of the banking system. It is important to note that the adaptation of banks to the realities of war and increased investment in the development of digital infrastructure have reduced operating costs.

In 2023, the return on equity was more than 50% in annual terms. High bank revenues and deferred dividend payments allowed banks to increase capital more actively, which will have a positive impact on the safety margin of the country's financial system in the future. Next year, the additional taxation of banks' "superprofits" approved by the Verkhovna Rada and the National Bank of Ukraine will somewhat slow down the increase in capital, but the available capital reserve is sufficient for a confident passage of 2024.

It is expected that the National Bank of Ukraine will keep the key rate unchanged for a longer period of time in 2024, which will support the interest margin of the banking system's profitability. A gradual increase in consumer spending due to lower inflation, higher average wages and lower unemployment will give an impetus to a better result in commission income. One of the biggest risks remains the flow of client portfolios from private banking institutions to state-owned ones, which even in 2023 can be traced to an increase in the level of problem debt, which provokes a greater quasi-sovereign risk, especially for the segment of corporate clients, as well as potentially more reserves from state-owned banks in 2024.

We should also expect, given the financial results of banks last year, the continuation of the dynamics of increasing labor costs, as well as large expenditures of banks on the development and maintenance of digital payment systems and on cybersecurity.

6. OTP GROUP

OTP Group operates in 12 countries, it is one of the most reliable financial institutions in the markets of the CEE Region, which focuses on service and meets all the needs of private and corporate clients in financial services thanks to a universal business model.

Established in 1949 as a state-owned savings bank, OTP Group today unites large subsidiaries in the field of insurance, real estate, factoring, leasing, asset management, investment and pension funds. Through its subsidiaries, Group operates in the markets of 12 countries — Hungary, Ukraine, Albania, Bulgaria, Moldova, Romania, Croatia, Montenegro, Slovenia and some others, and year after year strengthens its leadership position.

Thus, in 2023, OTP Bank entered the Central Asian Region, acquiring Ipoteka Bank in Uzbekistan, the country's fifth-largest financial institution. Entering Uzbek banking market opens a new page in the history of OTP Group, as Uzbekistan is the first country in the Central Asian Region where Group expands its presence.

In 2023, OTP Group member banks were recognized as Banks of the Year in Albania, Croatia, Montenegro and Slovenia by The Bankers 2023 Bank of the Year Awards. OTP Group member banks were also awarded by Euromoney Awards for Excellence 2023 in the following categories: Best Corporate Bank in Hungary, Best Digital Bank in Hungary, Best Digital Bank in Croatia, Best ESG Bank in Croatia, Best CSR Bank in Romania, Best Digital Bank in Montenegro (CKB Bank). At the same time, Global Finance published the 24th annual World's Best Foreign Exchange Banks rating. OTP Group member banks have been awarded in Bulgaria, Hungary and Serbia: DSK Bank, Bulgaria, OTP Bank, Hungary and OTP banka, Serbia.

OTP Group's strategic goal is to become the most successful universal banking group in Central and Eastern Europe, and it has also taken a step towards working in Central Asia. In addition to being open to innovation, the secret of OTP Group's success is that 75 years of experience and a customer base of 17 million help it to understand and meet the needs of its customers well.

Ownership structure of Banking Group

OTP Group's shareholders are Hungarian investors (44.33%), foreign companies and individuals, international organizations (54.93%), OTP Group employees (0.48%), and government organizations (0.05%). The rest (0.21%) are treasury shares and other shareholders.

Today, the 100% owner of the Ukrainian OTP Bank is the Hungarian OTP Bank Plc. — the largest financial institution in Hungary and one of the most dynamic financial groups in Eastern and Central Europe.

OTP Bank in Ukraine

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

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

In 2023, OTP Bank continued to support the Ukrainian economy and serve the retail and corporate segments. The bank also implements a strategy of investing in the IT sector and digitalization of client services for private and corporate clients.

In Ukraine, Group, in addition to the bank, includes OTP Factoring, OTP Leasing, OTP Capital. The team in Ukraine has 2,590 employees, of which 2,390 work in OTP Bank.

7. COMPOSITION OF THE SUPERVISORY BOARD

András Kuhárszki, Chairman

Tamás Katona, member

Zoltán Tóthmátyás, member

Attila István Molnár, member

Márk Szalai, member

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, member of the Management Board, responsible for the Bank's Operational Activities and IT

Alla Biniashvili, member of the Management Board, responsible for the Corporate Business Direction

Oleh Klymenko, member of the Management Board, responsible for Retail Business

Taras Prots, member of the Management Board (CRO), responsible for Risk Management

9. MAIN DEVELOPMENT STAGES AND PAST YEAR EVENTS

- OTP Bank took the third place in terms of capital adequacy according to the results of stress testing conducted by the National Bank of Ukraine. The capital adequacy ratio (R3) in OTP Bank amounted to UAH 7 billion 164 million, or 18.49% at the required level of 7%;
- The regulatory capital (R2) in OTP Bank is UAH 14 billion 189 million. Its adequacy ratio is 36.61% with the required level of 10%;
- The Bank ranked the 11th in terms of net assets and the 8th in terms of net profit;
- The Bank retained its position in the Top 10 banks in terms of loan portfolio size under the State Program "Affordable Loans 5-7-9%".
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10. RATINGS AND AWARDS

- Visa award in the category "Visionary Leader: social patronage and excellence in customer service";

- COMMERZBANK award for the quality of processing international transfers: "STP AWARD 2022. Excellent Quality in the delivery of commercial payments and financial institution transfer";

- OTP Bank is the winner in the category "Savings Bank for the population" among large non-state banks in the rating of the Financial Club;

- Oleh Klymenko, member of the Management Board of OTP Bank for retail business development, became one of the three best retail bankers in Ukraine in 2022, according to the Finawards rating from leading financial portals Minfin.com.ua and Finance.ua;

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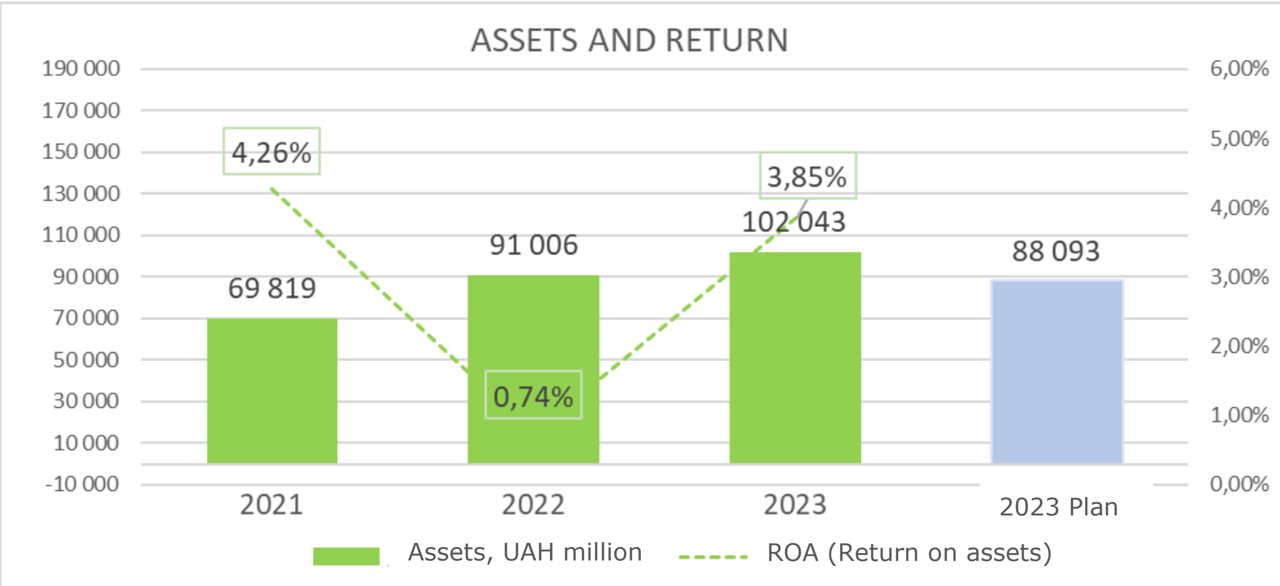
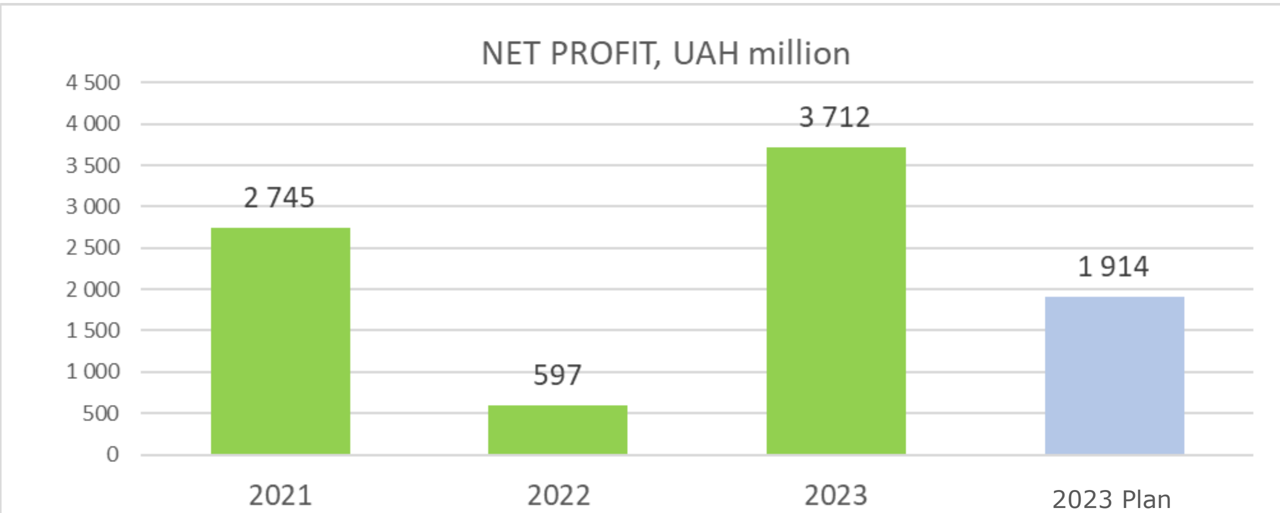
- Click OTPay entered the Top 3 best internet banking services in Ukraine and the Top 6 best internet banking services in Eastern Europe, the Caucasus and Central Asia, according to SME Banking Agency;
- OTP Bank won in the category "Employee Support in Times of War" in the rating of FranklinCovey Ukraine, a global leader in evaluating, implementing and training on efficiency, trust, productivity, sales and strategies;
- Award in the category "Strengthening Corporate Culture in Times of War", an award from FranklinCovey Ukraine;
- Charity Foundation "Blagomay" awarded OTP Bank with a charity Oscar for the largest number of charitable initiatives in 2023.

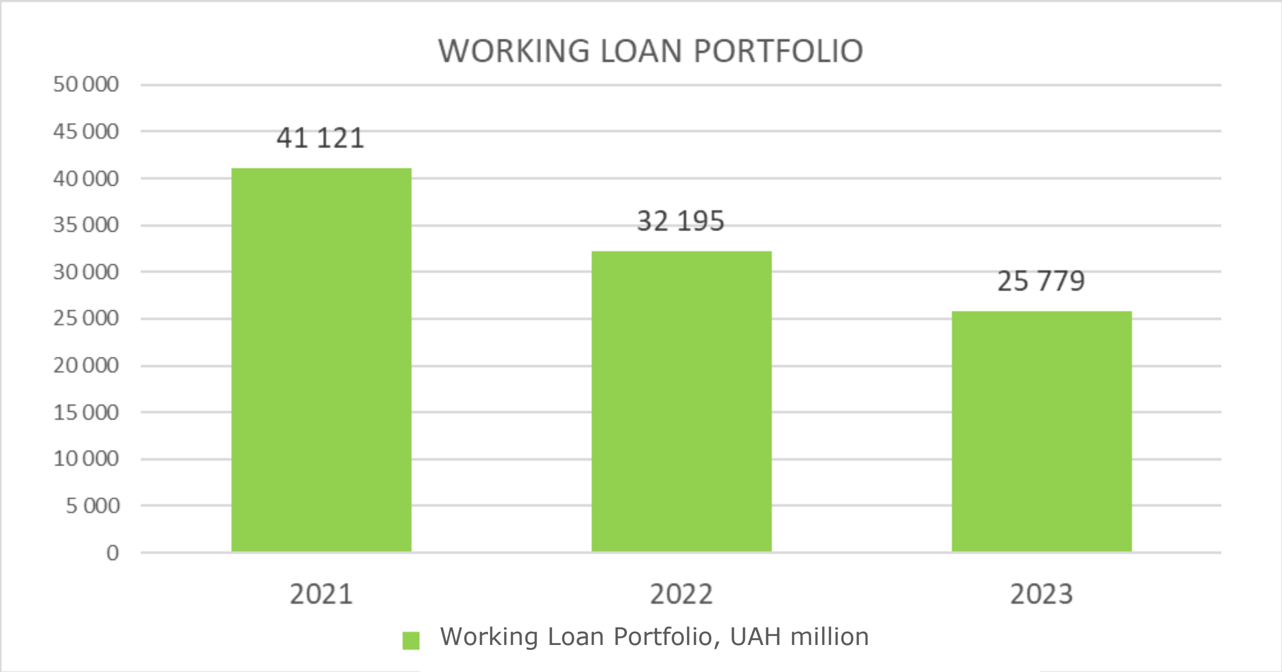
11. OVERALL FINANCIAL RESULTS AND ACHIEVEMENTS

In 2023, OTP Bank's assets continued to grow significantly and reached the level of UAH 102.0 billion, which is 12.1% more than at the beginning of the year. Return on assets increased to 3.85% year-on-year. The quality of the loan portfolio has declined due to the large-scale escalation of the military conflict. The bank significantly reduced its risk appetite, but resumed providing new loans to both legal entities and individuals.

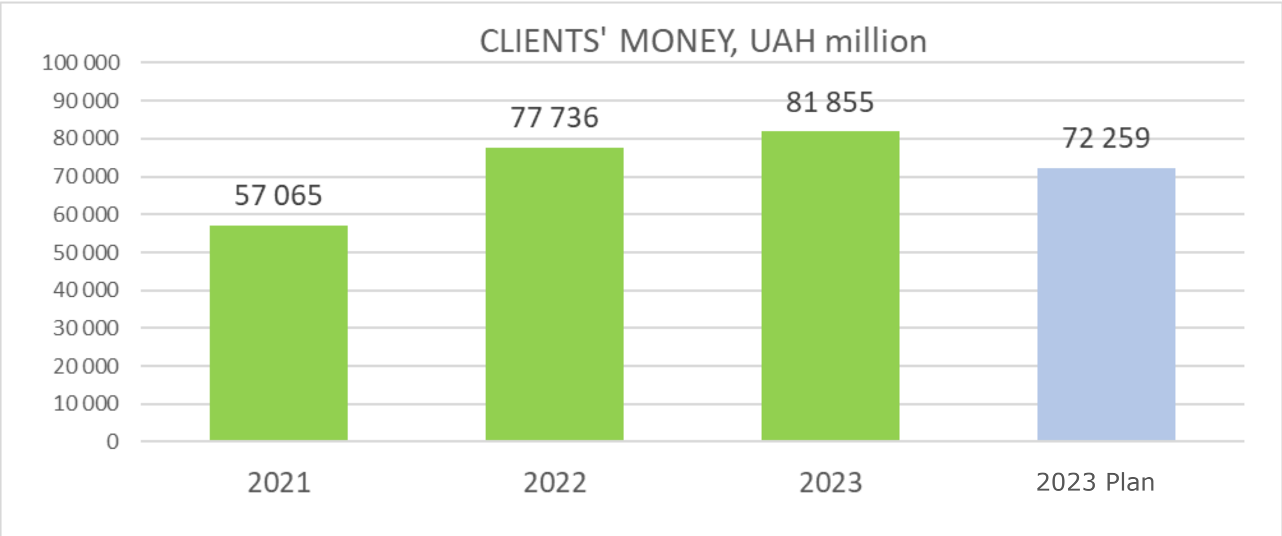




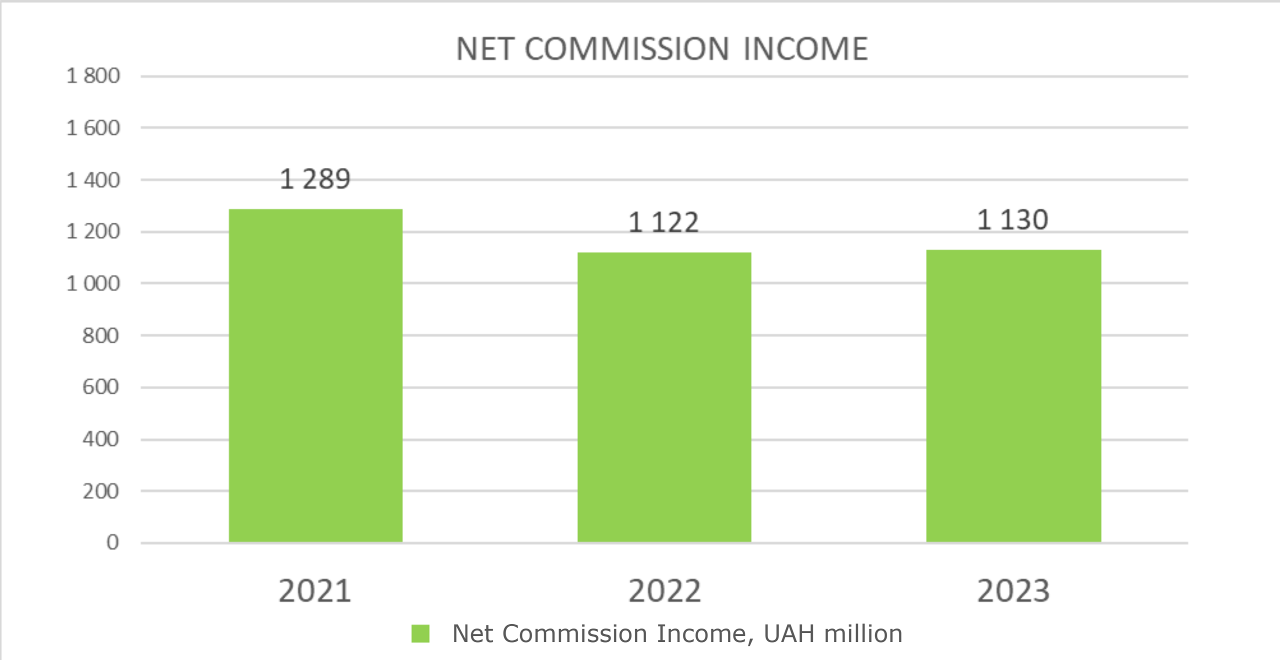
At the end of the year, the Bank entered the Top 10 largest banks in Ukraine in terms of net assets and net profit, and took the 11th and 8th places, respectively. At the same time, both assets and financial results exceeded the planned indicators, respectively.



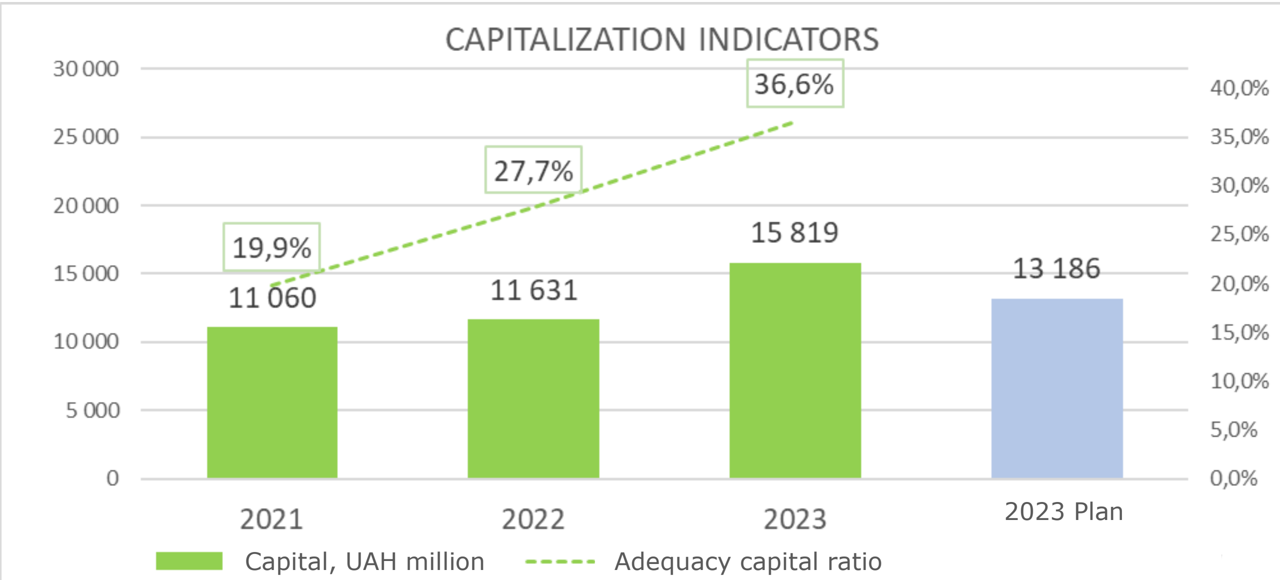
During 2023, the operating loan portfolio decreased by 19.9% to UAH 25.8 billion. This significant decline is due both to loan repayments, a decrease in the volume of new loans, and as a result of a deterioration in the quality of the portfolio.



Due to the increase in confidence in OTP Bank, the attractiveness of deposit products and loyalty programs in 2023, the funds of legal entities and individuals increased by 5.3% and reached a record level of UAH 81.9 billion. In 2023, the Bank focused on supporting customers who have found themselves in a difficult situation as a result of the escalation of the military conflict, namely, carrying out loan restructurings on terms that are convenient for customers. The Bank's strategic goal remains to continuously improve the customer experience of using its products and services.



The decline in business activity of clients due to military aggression and restrictions on the foreign exchange market did not significantly improve the Bank's commission income results in 2023.



In 2023, the Bank's capital continued to grow as a result of profit capitalization. The accumulated capital allows the Bank to be prepared for any stressful situations. The regulatory capital in OTP Bank is UAH 14 billion 189 million. Its adequacy ratio is 36.61% with the required level of 10%.

12. RISK MANAGEMENT SYSTEM

Risk Management in OTP Bank

Risk Management, which is based on the best international practices and successful experience in Ukraine, is an essential element of the Bank's development strategy and a guarantee of development stability. The primary goal of Risk Management in the Bank is a balanced assessment and risk acceptance, which makes it possible to achieve the planned profit, 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 a Declaration of risk propensity in order to determine the risks that the Bank accepts and those that the Bank avoids, as well as the total amount of risk appetite and the amount of risk appetite for each of the risks.

The main advantage of using the risk appetite mechanism is that risks are identified and structured in a quantitative way that links them to the bank's business goals and strategy. A limit system is used to distribute risk appetite between business units, products, and risk subtypes and further control the magnitude of risks. Monitoring of the risk value relative to the established risk appetite and risk limits occurs on a regular basis by determining the risk profile in an aggregated form and in the context of all types of risk.

The Risk Management Strategy defines the basis for 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, information and communication technology risk, Information security risk, inappropriate behavior risk, model risk and outsourcing risk; strategic and reputational risks.

Every year, the Bank updates Policies and Regulations on the management of each type of risk, which set limits and regulatory values to avoid excessive volatility and concentration of risks that are beyond the optimal risk-return ratio, as well as procedures for managing each type of risk.

The Bank has established and operates a comprehensive risk management system that provides constant analysis, management and control over the risks that the Bank is exposed to in its operating activities, and allows you to make informed decisions about the size of the Bank's risk appetite, its compliance with market conditions and the Bank's business strategy. For risk management, the Bank has established a permanent Risk Management Division that reports to the Supervisory Board of the Bank. A key function in the organizational structure of risk management belongs to the Supervisory Board, which determines and approves the Risk Management Strategy, requirements for the functioning of the internal control system in the Bank, policies and procedures for managing all types of risk, the Bank's procedures in the event of a crisis or events requiring the resumption of operations, as well as the organizational structure of risk management, ensures sufficient resources for risk management, and monitors through obtaining regular information about the Bank's risk profile.

By the decision of the Supervisory Board, the Supervisory Board's Risk Management Committee was established, which performs such functions as monitoring the Bank's compliance with the established aggregate level of risk appetite and the level of risk appetite for each type of risk; monitoring the implementation of the risk management strategy and policy; monitoring the state of implementation of measures to promptly eliminate shortcomings in the functioning of the risk management system; monitoring that pricing/setting 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 Bank's Management Board, as the highest executive body of the Bank, is called upon to ensure the implementation of the Supervisory Board's decisions on the Risk Management System and the implementation of the Bank's business strategy and plans in compliance with the requirements and restrictions of the Bank's risk appetite. By the decision of the Supervisory Board, to manage credit risk and liquidity risks, interest rate risk in the Bank's ledger and market risks, the bank has established, respectively: a Credit Committee and an Asset and Liability Management Committee, whose activities are determined by the relevant procedures and regulations. Among the key Committees established by the Bank's Management Board to implement the Risk Management System, it is worth noting the Problem Debt Management Committee, the Corporate Segment Customer Risk Management Committee, the Retail Business Credit Committee and the Reserve Committees, as well as the Operational Risk Management Committee. Regular verification and evaluation of the effectiveness of the Bank's Risk Management System is carried out by the Bank's Internal Audit Division.

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 Division to determine the Bank's readiness, adequacy of its capital and liquid financial assets to carry out operating activities without violating the standards established by the NBU, in the event of a sudden onset of an unfavorable macroeconomic situation.

Ensuring the Bank's accessibility to customers, regulators and shareholders in the event of emergencies is an integral element of the Bank's Risk Management System.

In order to properly respond to emergencies and overcome their consequences, the Bank has developed and implemented appropriate plans to ensure continuity and resumption of operations, including a plan for financing in crisis situations. These plans are updated on an ongoing basis and should be carried out through comprehensive testing.

The Bank's Risk Management System is a component of the Risk Management System of the International Banking Group OTP Group, which provides opportunities for the exchange of experience and best international practices, as well as continuous development and improvement of the Bank's Risk Management System. In addition, the Risk Management Divisions of the Parent Bank 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 or additional losses or shortfall in planned income due to non-fulfillment by the debtor/counterparty of their obligations under the terms of the agreement.

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, which consists of successive stages: identification and definition, assessment and measurement of risk, direct risk acceptance and minimization, and, finally, monitoring and control of the risk profile and trends in its development.

Risk Management Strategy, Credit Policy, and Credit Risk Management Policies, including monitoring, collateral, and problem debt, define credit risk, creditworthiness, and solvency criteria for individual debt, and set standards and limits for portfolio-level credit risk management. Detailed requirements for the loan agreement are set out in the product standards, which are updated on a regular basis, but at least once a year.

Credit risk assessment and measurement are based on counterparty rating models, which prepare and provide financial statements, and scoring models for other counterparties, which help to divide counterparties into classes according to the probability of credit risk for each of these classes. Credit risk assessment models make it possible to make informed decisions about the amount of expected losses and the required ratio of return and risk, to avoid those classes of expected credit risks for which the income is not adequate, or the amount of risk is in too wide a range beyond the control of the Bank.

Each of the credit risk classes of counterparties corresponds to certain approaches to the maximum permitted amount of debt, methods for minimizing expected losses, including through debt security requirements, and calculating the amount of expected credit losses. All models are subject to mandatory documentation, back-testing and validation by the relevant divisions of OTP Bank in Hungary. In the process of counterparty analysis, it is mandatory to determine a group of related counterparties based on control features, taking into account the ownership and management structure and/or significant economic interdependencies.

Risk acceptance is accompanied by a system of credit risk competencies and powers, which, depending on the amount of debt owed under the loan agreement, consists of collegial bodies and individual powers. The highest collegial body of the Bank that manages credit risk is the Credit Committee, established in accordance with the decision of the Bank's Supervisory Board. The credit committee has the competence to delegate some of its credit risk decision-making powers to lower-level Credit Committees and individual officials responsible for taking the risk.

The unshakable principles of decision-making are the mandatory presence of representatives of the Risk Management Division and their veto power, provided that the decision will lead 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 4-eye principle and unanimous approval. For standard products for retail customers with minimal amounts of debt, there is an automatic decision-making system that is configured, maintained and monitored by representatives of the Risk Management Division. At the time of taking the risk, it is mandatory to identify insiders associated with the bank, check the terms of the decision on compliance with product standards, market conditions, and refrain persons who hold credit powers from voting in case of a conflict of interest.

Minimization of credit risk at the level of each individual counterparty provides for compliance with the established policies, procedures and standards of the maximum amount of credit obligation/debt burden, maturity dates, and the level of collateral coverage. Credit risk management at the level of the loan portfolio involves risk diversification, restrictions on the most exposed to excessive risks segments of the portfolio and is carried out using a system of limits set by the Bank's credit policy regarding the maximum allowable concentration of debt at the level of the country, currency, economic sector, a certain product and a group of related counterparties.

The Bank pays special attention to the process of continuous monitoring and early identification of problematic and potentially problematic 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 servicing, information is collected from external sources regarding changes in the counterparty's membership, bankruptcy proceedings, significant material legal proceedings, the status of debt servicing in accordance with the data of credit bureaus and the credit register, tax arrears and/or other mandatory payments, and public information that has a negative impact on the counterparty's reputation. The early response system consists of several stages that determine the probability of problem debt occurrence and, accordingly, determine measures, including preventive ones, that should be applied to prevent the occurrence of problem debt or reduce the expected losses from problem debt.

The system for monitoring and early identification of distressed and potentially distressed debt is integrated into the system for estimating expected impairment losses on financial assets in accordance with International Financial Reporting Standards. The process of monitoring and evaluating reserves to cover credit risk is controlled by the Corporate Segment Customer Risk Management Committee, the Retail Business Credit Committee, and the Reserve Committee, respectively.

ESG risk management is carried out within the framework of credit risk management. OTP Group aims to become a regional leader in financing a fair and gradual transition to a low-carbon economy and building a sustainable future through responsible financial products and services. Managing the risks associated with ESG factors is key to achieving this goal.

The ESG exclusion list is a central guidance document that lists activities that are not supported by Group. New clients of Group should not participate in the activities listed in the exclusion list, namely:

- Operations aimed at violating the legal norms of the host country or international law (for example, illegal arms trafficking, prohibited gambling, illegal drug trafficking);
- Production of products or trade of products containing PCBs (Poly Chlorinated Biphenyls - a group of highly toxic chemicals);
- Production or trade of pharmaceuticals, pesticides/herbicides and other hazardous substances prohibited by international legal acts and subject to withdrawal from use;
- Production or trade of ozone-depleting chemicals to be subject to withdrawal from use;
- Trade of wild animals and plants or production of products from wild animals and plants, or trade of such products listed in the CITES Convention;
- Transboundary movement of waste prohibited under international law;
- Production or trade of prohibited weapons (anti-personnel landmines, biological, chemical and nuclear weapons, etc.);
- Trade in goods without the necessary export or import licenses or other transit permits from the respective countries of export, Import and, if necessary, transit;
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity or cultural heritage resources;

- Fishing in the marine environment using nets exceeding 2.5 km in length;
- Shipment of oil or other hazardous substances to vessels that do not meet IMO requirements;
- Shale gas production, exploration and modernization in Europe;
- Coal mining using mountain peak removal techniques;
- Keeping animals for the primary purpose of fur production or any activity related to fur production;
- Manufacture, use or trade of unbound asbestos fibers, as well as products and mixtures containing asbestos;
- Export of mercury and mercury compounds, as well as the production, export and import of a large range of mercury-adding products.

Problem debt settlement is carried out by Problem Debt Management Divisions that are independent of the Business Divisions and Risk Management Divisions that made decisions when issuing credit debt. By analogy with the hierarchy of the Credit Committee, the highest collegial body is the Committee for Working with Problem Debt, established by the decision of the Bank's Management Board, with a subordinate system of lower-level committees and/or officials with credit powers.

In working with the mass segment of retail clients, standard products and debt settlement procedures predominate depending on the product and the term of non-fulfillment of obligations, while corporate segment clients are characterized by scenario analysis with the choice of a scenario that will determine the maximum repayment of debt, taking into account the state of relations with the counterparty, the cost and the state of collateral, the state of claim-related work and the time value of money.

2023 was a continuation of certain trends of 2022 regarding the development of volumes and shares in total assets of the bank's assets, which are characterized by credit risk. Typical for the first half of 2023 were trends to further reduce the size of the loan portfolio, primarily due to a reduction in the amount of debt on previously restructured loans, continued accumulation of bank customer account balances as a result of significant fiscal incentives, and, as a result, a further sharp increase in the size and share of assets in the form of highly liquid financial assets. At the same time, since the 2nd half of the year, there has been a tendency to restore the growth of the loan portfolio of legal entities and individuals, which is the basis for the bank's long-term and sustainable development. This change was stimulated by positive changes in the level of macro-stability indicators, diversification and stabilization of logistics routes by sea, an increase in the level of security and resistance of the energy system, and, finally, the beginning of the cycle of revision of the monetary policy of the National Bank of Ukraine in the direction of its easing.

In 2023, the Bank's assets increased by 12.1% and exceeded the mark of UAH 102 billion, while the size and share of financial assets continued to grow in the form of funds placed in the National Bank of Ukraine, mainly in correspondent accounts of other counterparty banks, and in the form of investments in securities issued by the central authorities of Ukraine and the G7 countries. This asset structure, during the period of tight monetary policy by key central banks of the world, supported the bank's high asset yields. It is worth noting that during the year there was a change in the components of financial assets denominated in hryvnia, in favor of increasing investments in securities of the Ministry of Finance of Ukraine, during the first half of the year due to investments in the benchmark of the government bonds, which are used to meet the minimum reserve requirements, and from the second half of the year, in the portfolio of long-term government bonds, as a result of the policy on managing interest risk during the gradual transition of the NBU to the policy of easing and reducing the key rate. As of the end of 2023, the amount of funds placed in other banks and investments in securities increased by 19.1% to UAH 65.2 billion in hryvnia equivalent, or 66.4% of assets that are characterized by credit risk, at the same time, the share of debt in the national currency increased to 60%.

The loan portfolio of legal entities and individuals decreased by 15.5%, to UAH 32.9 billion. The share of the corporate business loan portfolio exceeded 80% of the bank's loan portfolio during the year.

The corporate business loan portfolio is quite diversified in terms of risk concentration per counterparty, a group of related counterparties. The debt of the 20 largest groups of related counterparties - borrowers of the bank is 35% as of the end of 2023, almost unchanged during the year. The indicator of "large loans", the debt of a group of related counterparties exceeding 10% of the bank's regulatory capital, the NBU credit risk ratio R8 as of the end of the reporting period decreased to 0%, in fact, there is no such debt.

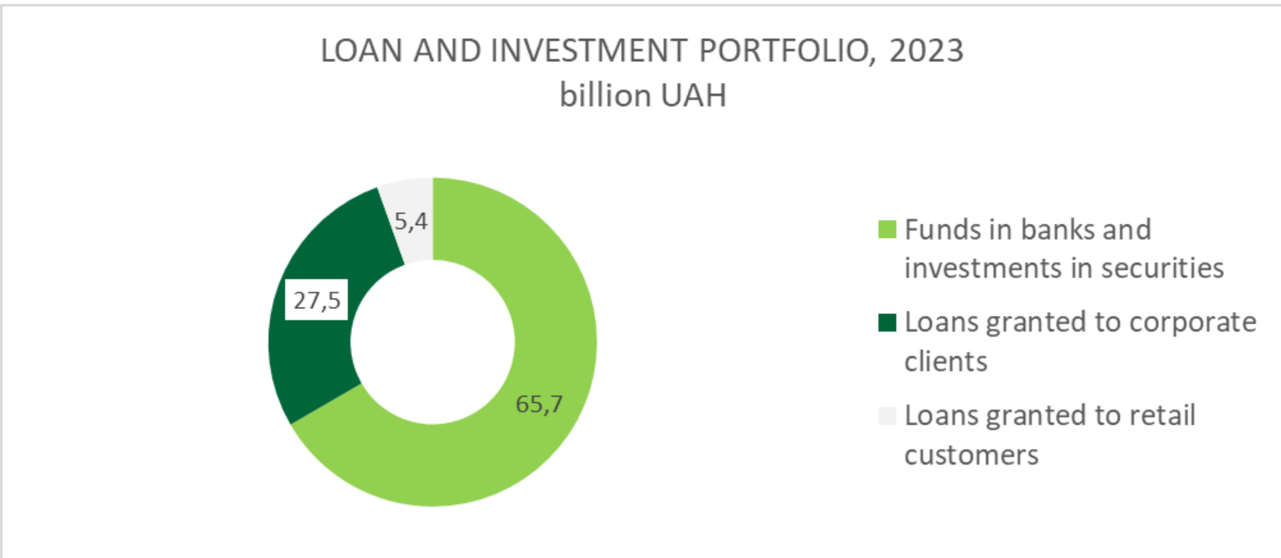
Taking into account the industry structure of the corporate loan portfolio, the share of loans granted to retail enterprises increased to almost 40%. The sphere of trade is exactly the sphere that quickly adapted to the "new" conditions of economic activity under martial law and acted as the locomotive of Ukraine's economic growth in 2023. The shift of emphasis in maritime logistics to the Danube ports and the gradual resumption of logistics from the seaports of Velyka Odesa under the auspices of the Armed Forces and the Navy of Ukraine, allowed to establish stable supply routes and led to a certain reduction in the cost of logistics chains for agricultural products, which allowed to partially compensate for the downward price trend in international commodity markets for agricultural products, as well as increase the bank's exposure to this sector of the economy from 16.8% to 18.8% of the corporate loan portfolio.

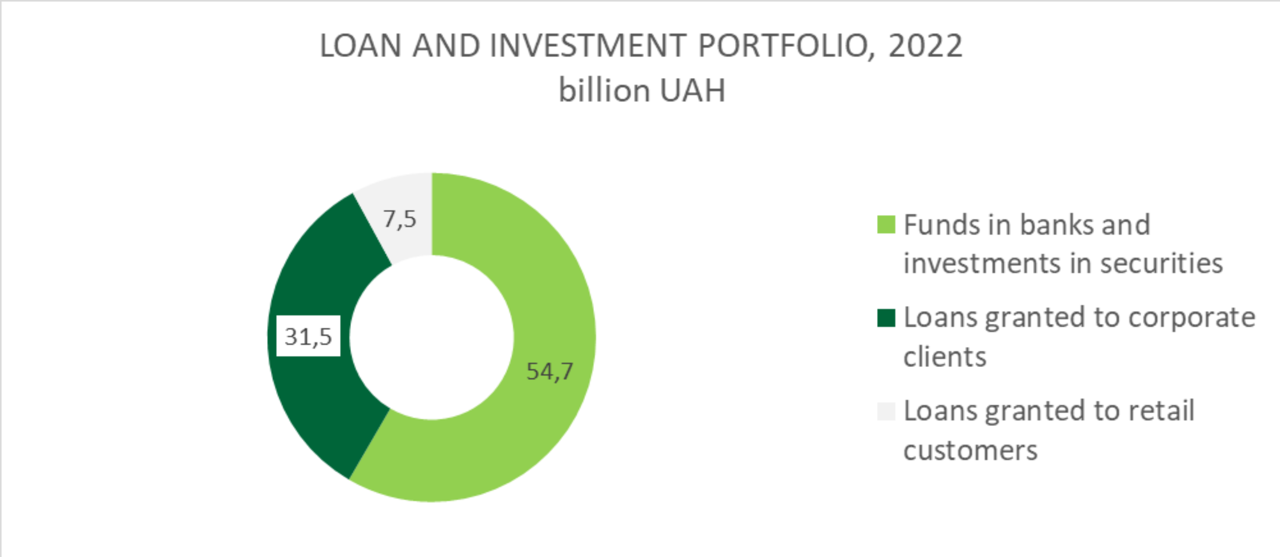
During the year, there were no changes in the share of foreign currency debt, which is about 40% in the loan portfolio of corporate businesses. The bank controls and limits the amount of debt in foreign currency against borrowers who do not have enough foreign currency earnings to service debt in foreign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

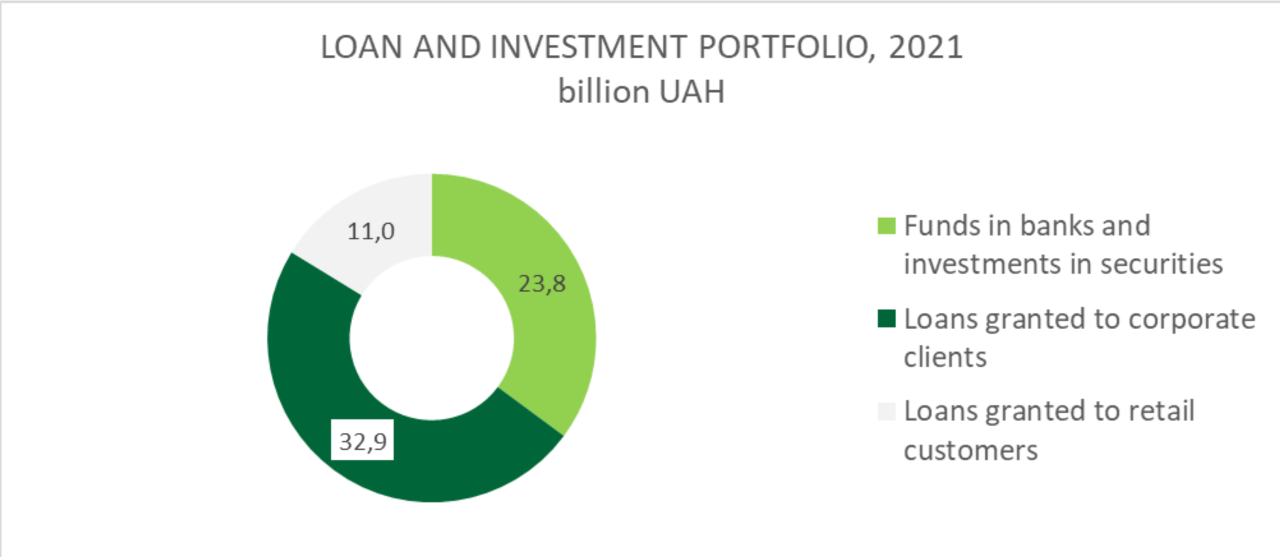
The credit quality of the portfolio of loans granted to corporate clients improved significantly during 2023 due to a significant reduction in the share of the 2-stage portfolio from 38% at the end of 2022 to 26% of the portfolio at the end of 2023. The share of 3 stage increased slightly to 18% of the portfolio, but 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. Such changes in the qualitative structure of the corporate client portfolio made it possible to disband a significant part of the reserves for credit risks, which positively affected the bank's financial result for 2023.

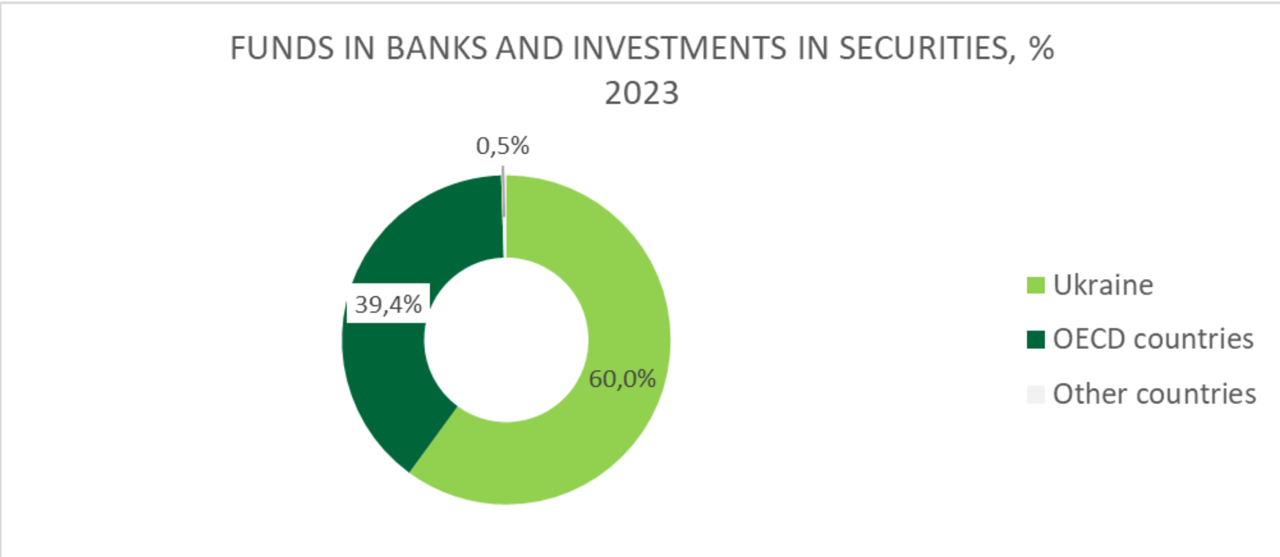
The consumer loans portfolio of the retail business decreased by 27.7% during the year from UAH 7.5 billion to UAH 5.4 billion. This happened against the background of a reduction in 2-stage portfolio due to regular repayment of debt by customers within the agreed debt restructuring schedules, as well as regular sales of 3 stage debt to external collection companies after the completion of all procedures for repayment and settlement of problem debt on the bank's side.

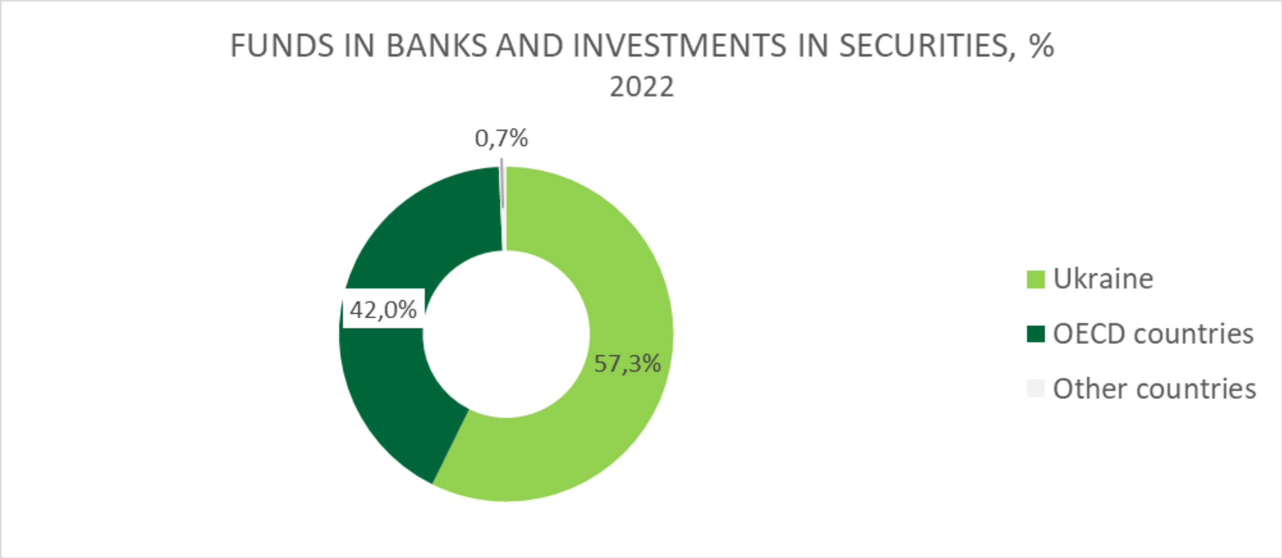
The credit quality of the loan portfolio granted to retail customers was similar to that of corporate clients. Additional provisions for credit risks were almost completely offset by the disbandment of reserves as a result of successful settlement of potentially problematic and distressed debt, which led to an almost neutral effect on the bank's financial result in terms of additional reserves for credit risks of the retail customer loan portfolio.

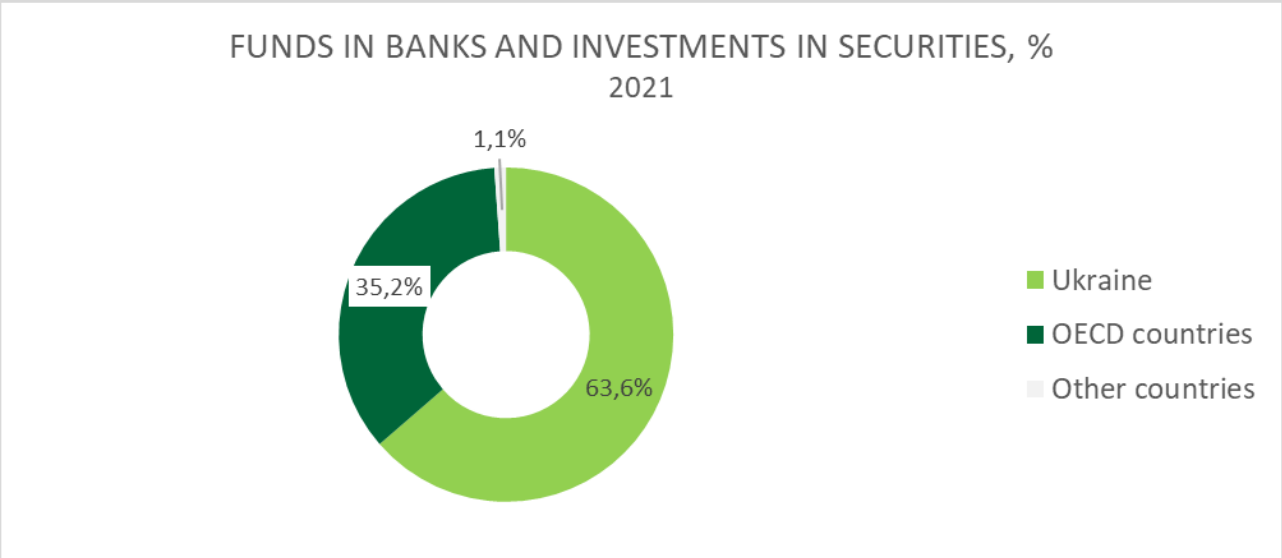


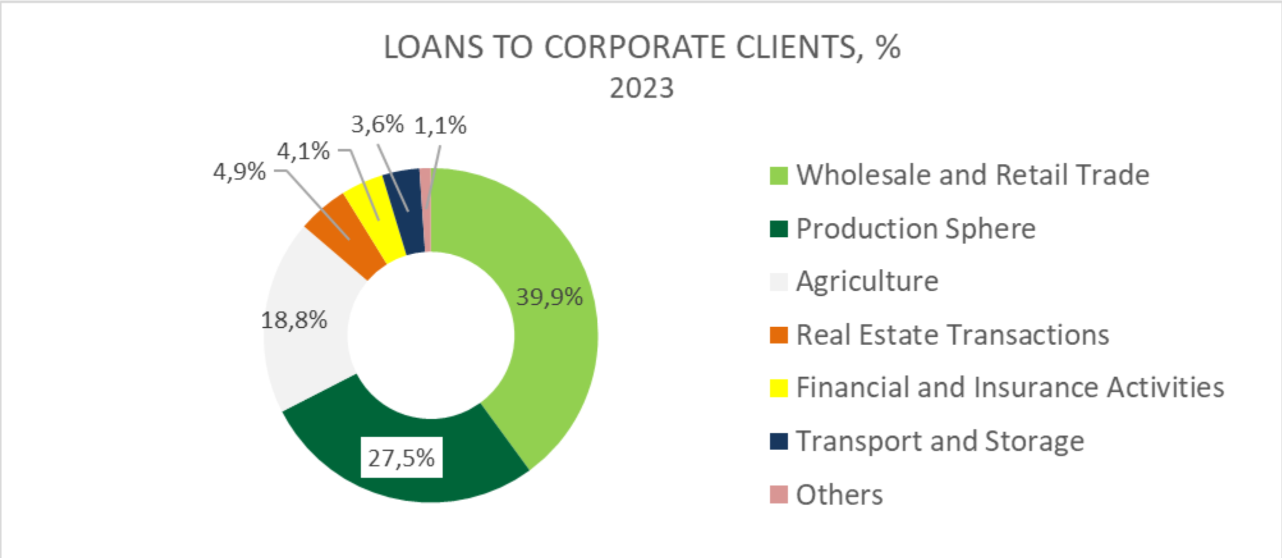

LOAN AND INVESTMENT PORTFOLIO, 2022
billion UAH
7,5
31,5
54,7
Funds in banks and investments in securities
Loans granted to corporate clients
Loans granted to retail customers

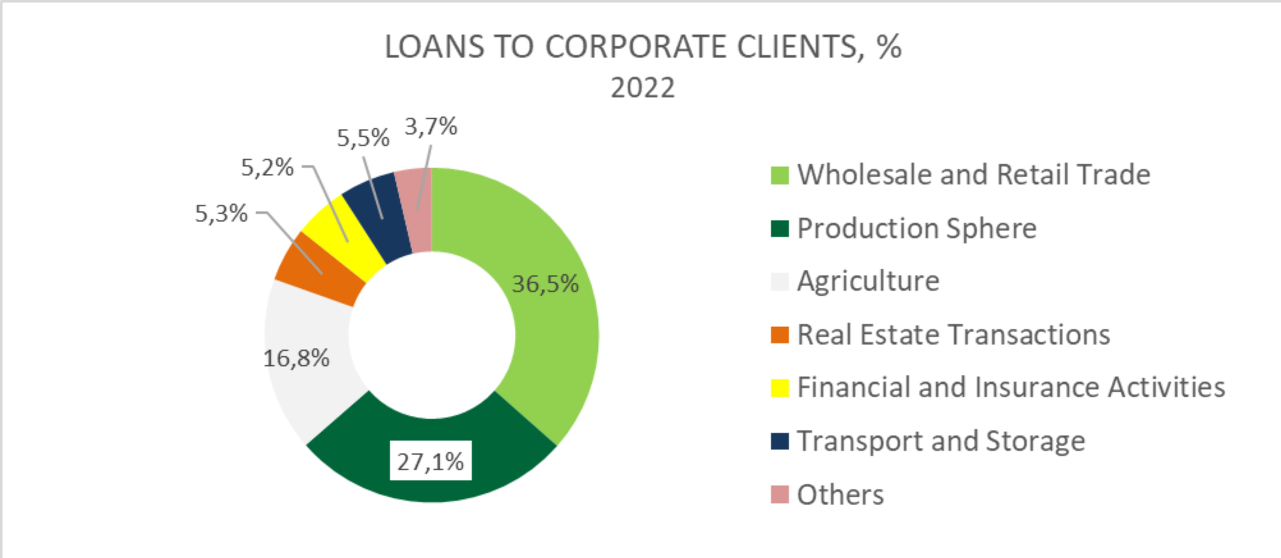

LOAN AND INVESTMENT PORTFOLIO, 2021
billion UAH
11,0
23,8
32,9
Funds in banks and investments in securities
Loans granted to corporate clients
Loans granted to retail customers

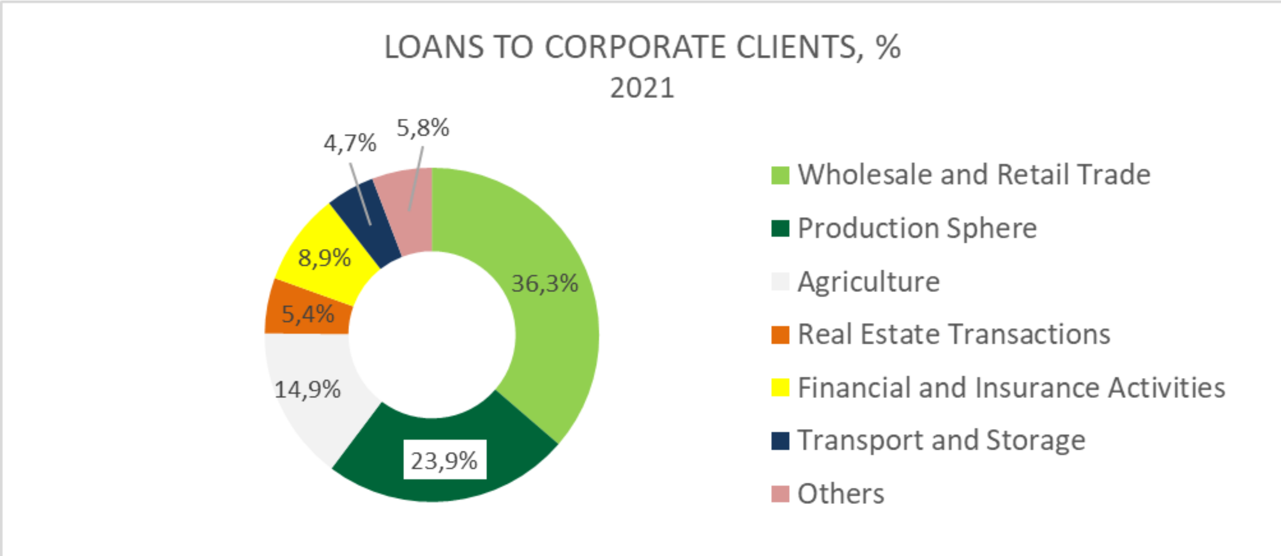

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2023
0,5%
39,4%
60,0%
Ukraine
OECD countries
Other countries

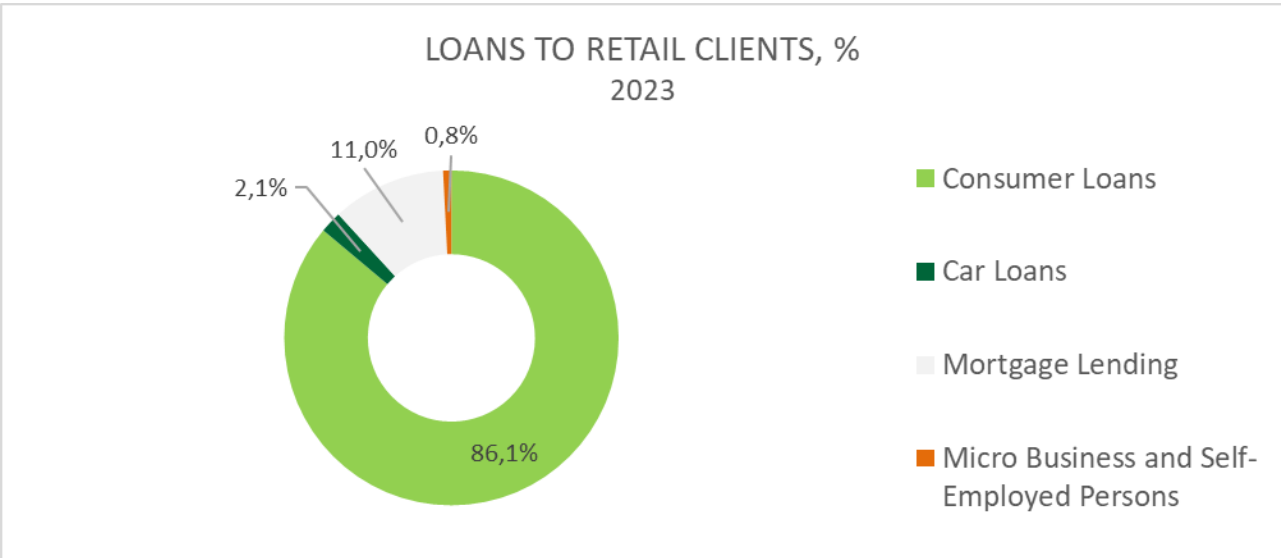

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2022
0,7%
42,0%
57,3%
Ukraine
OECD countries
Other countries

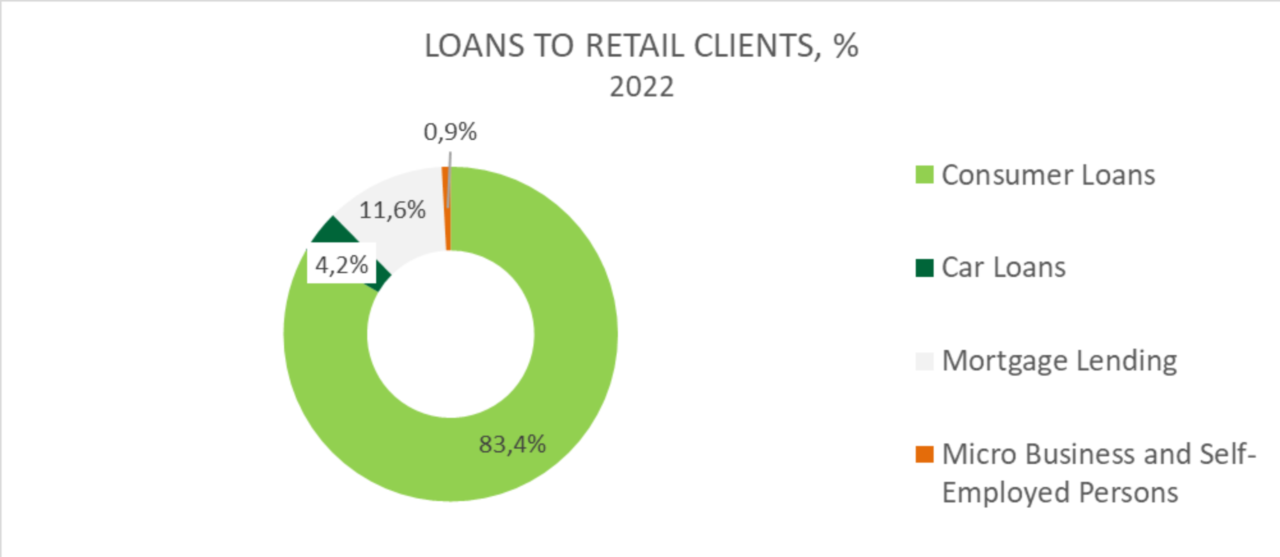

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2021
1,1%
35,2%
63,6%
Ukraine
OECD countries
Other countries

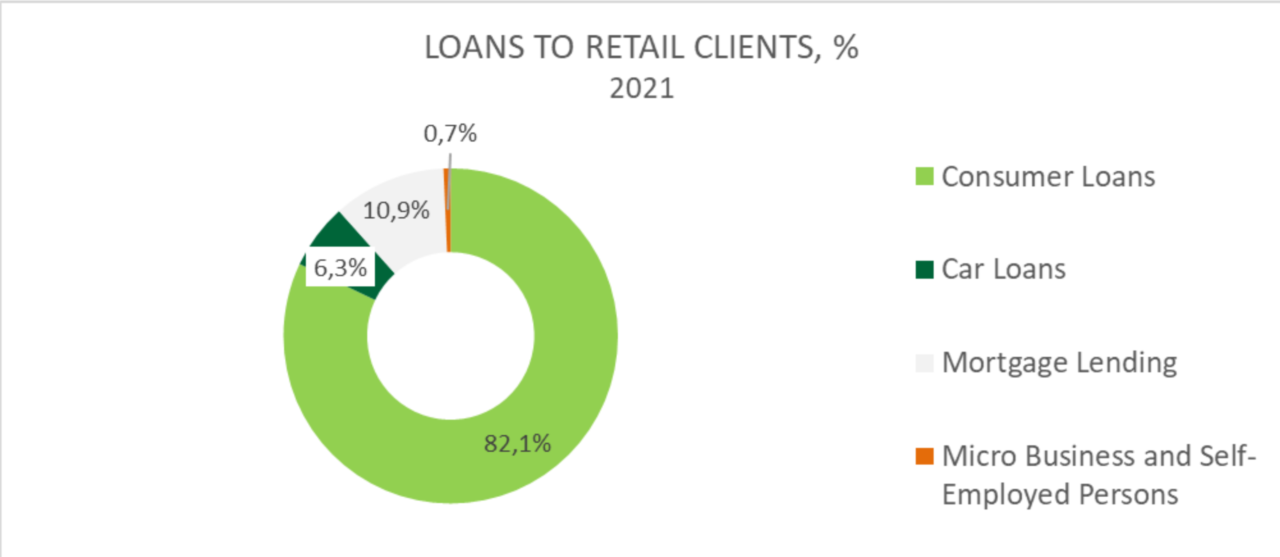

LOANS TO CORPORATE CLIENTS, %
2023
3,6%
1,1%
4,1%
4,9%
39,9%
18,8%
27,5%
Wholesale and Retail Trade
Production Sphere
Agriculture
Real Estate Transactions
Financial and Insurance Activities
Transport and Storage
Others


LOANS TO CORPORATE CLIENTS, %
2022
36,5%
27,1%
16,8%
5,3%
5,2%
5,5%
3,7%
Wholesale and Retail Trade
Production Sphere
Agriculture
Real Estate Transactions
Financial and Insurance Activities
Transport and Storage
Others


LOANS TO CORPORATE CLIENTS, %
2021
36,3%
23,9%
14,9%
5,4%
8,9%
4,7%
5,8%
Wholesale and Retail Trade
Production Sphere
Agriculture
Real Estate Transactions
Financial and Insurance Activities
Transport and Storage
Others


LOANS TO RETAIL CLIENTS, %
2023
86,1%
2,1%
11,0%
0,8%
Consumer Loans
Car Loans
Mortgage Lending
Micro Business and Self-Employed Persons





Liquidity and Market Risks Management

Liquidity risk is the probability of losses or additional losses or shortfall in planned income due to the bank's inability to provide financing for asset growth and/or fulfillment of its obligations in due time.

The source of risk can be both changes in the terms and volumes of receipts of financial resources, and changes in market conditions that affect the cost and possibility of selling existing financial assets on the market in a short time.

The highest collegial body of the Bank that manages liquidity risk is the Asset and Liability Management Committee, which was established in accordance with the decision of the Bank's Supervisory Board.

Liquidity Risk Management takes place over 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 passage of payments during the operating day to identify significant unplanned deviations from the projected amounts of outflows and receipts for making operational decisions on 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 National Bank of Ukraine's LCR standard 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, financing short-term needs based on 3-month forecasts of the needs of business lines for the volume of growth of the financial assets portfolio in the normal course of business activity.

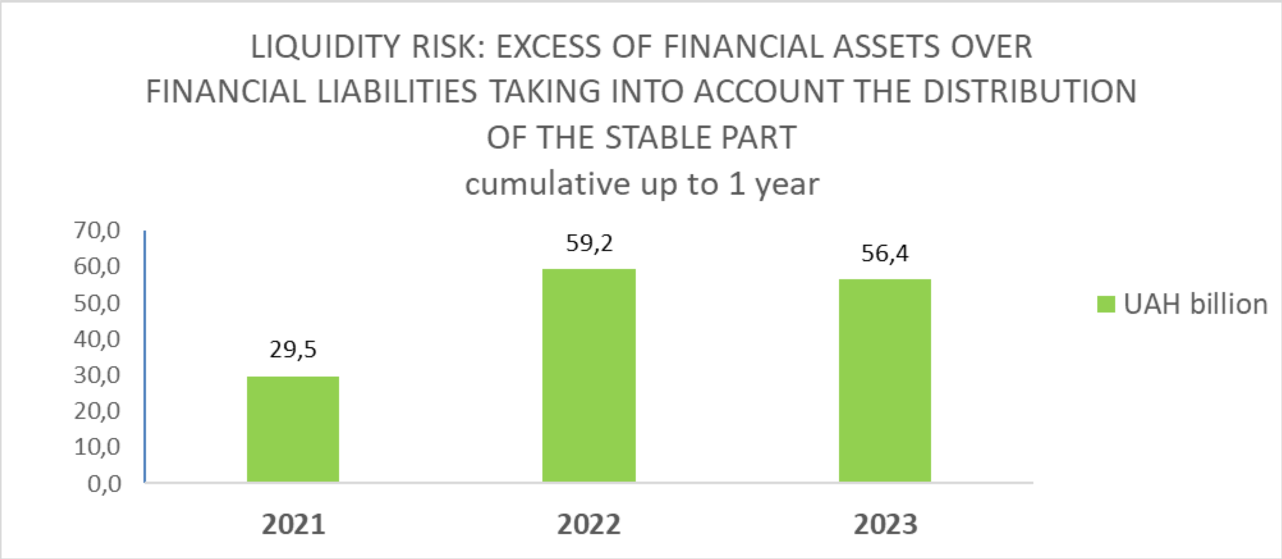
Managing short-term liquidity through internal liquidity limits enables Risk Management Divisions and the Asset and Liability Management Committee to make informed decisions about the size of the highly liquid asset portfolio, its structure and timing of placement of funds in financial assets, as well as determine the bank's interest rate policy regarding its financial assets and liabilities.

A significant role in planning and managing short-term liquidity is played by models of behavior of customer account balances, which are used to determine the expected amount of deposit outflows at different time intervals during a calendar year. To manage liquidity, constant monitoring and analysis of the product structure of the bank's financial liabilities, the volume of raised and repaid funds and their value, as well as the concentration of deposits by remaining terms to their repayment and groups of related counterparties is carried out. The results of the analysis affect decisions regarding changes in the structure of the highly liquid assets portfolio.

Liquidity management is completed at the medium- and long-term liquidity management level. Every year, the Asset and Liability Management Committee approves the Bank's Financing Program, which determines the priorities of the credit and investment strategy and how to finance it. In addition, the bank's financial markets and market position are regularly analyzed, as well as indicators of early response to the onset of a liquidity crisis and indicators of the need to implement a recovery plan, including a financing plan in crisis situations, are monitored.

In the national currency, the bank holds liquid assets in the amount sufficient to fulfill within the next three months all obligations that will not be renewed after the expiration of their contractual term, cover planned outflows from the main business activities and the outflow of client funds in the event of a liquidity crisis.
In foreign currencies, the Bank holds a reserve of liquid assets in the amount sufficient to meet all obligations that will not be renewed within the next month, as well as cover planned outflows from its core business activities. The Bank relies on the support of the parent bank in the event of an outflow of client funds denominated in foreign currencies.

During 2023, the Bank continued to hold a sufficient margin of excess of short-term assets over the bank's liabilities, reaching LCR of more than 275% in all currencies, and NSFR of more than 237% in all currencies over the 1-year horizon. The loan-to-deposit ratio improved during 2023 to 37% for hryvnia as of the end of 2023 and to 22% in foreign currencies as of the end of 2023. Taking into account the gradual changes in the calculation of the components of highly liquid assets as a component of LCR, the bank continues the process of increasing investment in debt obligations of Group G-7 countries. The bank's deposit portfolio remains quite diversified, the share of the 10 largest depositors (groups of related depositors) of the bank barely exceeds 15% in hryvnias, with a concentration slightly higher than 25% in terms of customer balances in foreign currencies.

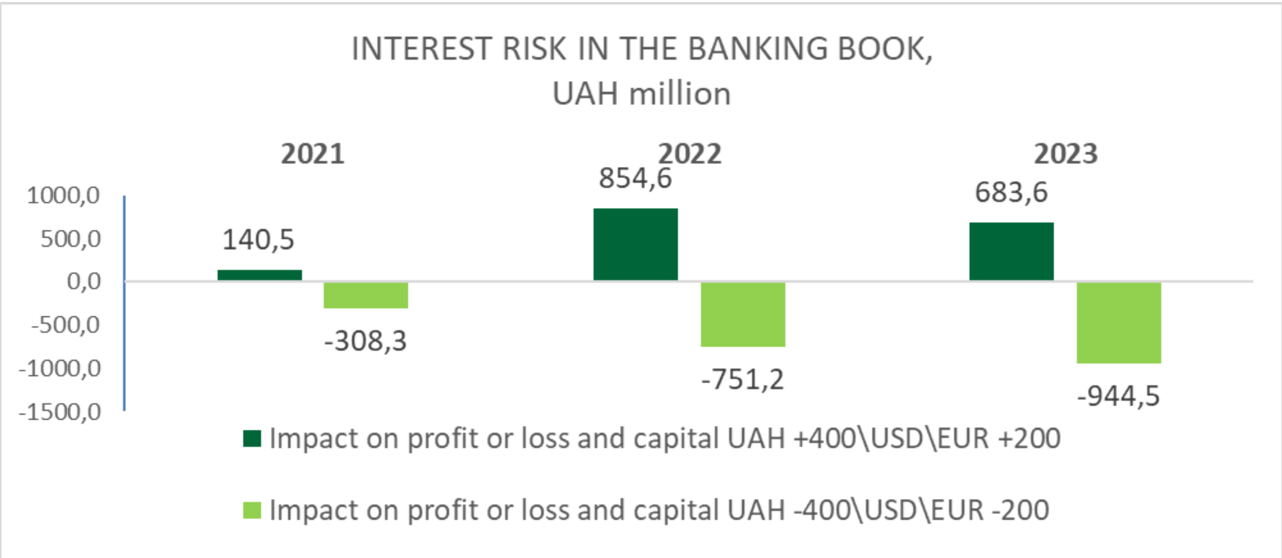


Bank book interest rate risk is the probability of losses or additional losses or shortfalls in planned income due to the impact of adverse changes in interest rates on the bank book.

The highest collegial body of the Bank that manages the interest rate risk of the bank book is the Asset and Liability Management Committee, which was established in accordance with the decision of the Bank's Supervisory Board.

Interest Rate Risk Management in the bank book is based on the measurement of imbalances (gaps and open positions) in the amounts and deadlines for revising rates on the bank's financial assets and liabilities and inconsistencies in base interest rates or interest indices for different types of financial instruments. For interest rate risk in the bank's ledger, the Risk Management Division calculates the sensitivity of net interest income to changes in market interest rates and changes in the economic cost of capital in six short-and long-term scenarios.

As of the end of 2023, the impact of changes in interest rates on the bank's net interest income over the one-year horizon increased significantly and amounted to UAH 944.5 million, or 12.5% of the planned net interest income, subject to a shock drop-in rates on all terms for hryvnia by 400 basis points and a drop in rates on all terms for foreign currencies by 200 basis points. The maximum change in the economic cost of capital reaches UAH 843.3 million, or 5.9% of the bank's regulatory capital, as of the end of 2023 as a result of the shock of a parallel upward shift in the interest rate curve for all currencies.



Market risk is the probability of losses or additional expenses or shortfall in planned income due to unfavorable changes in foreign exchange rates, interest rates and the value of financial instruments.

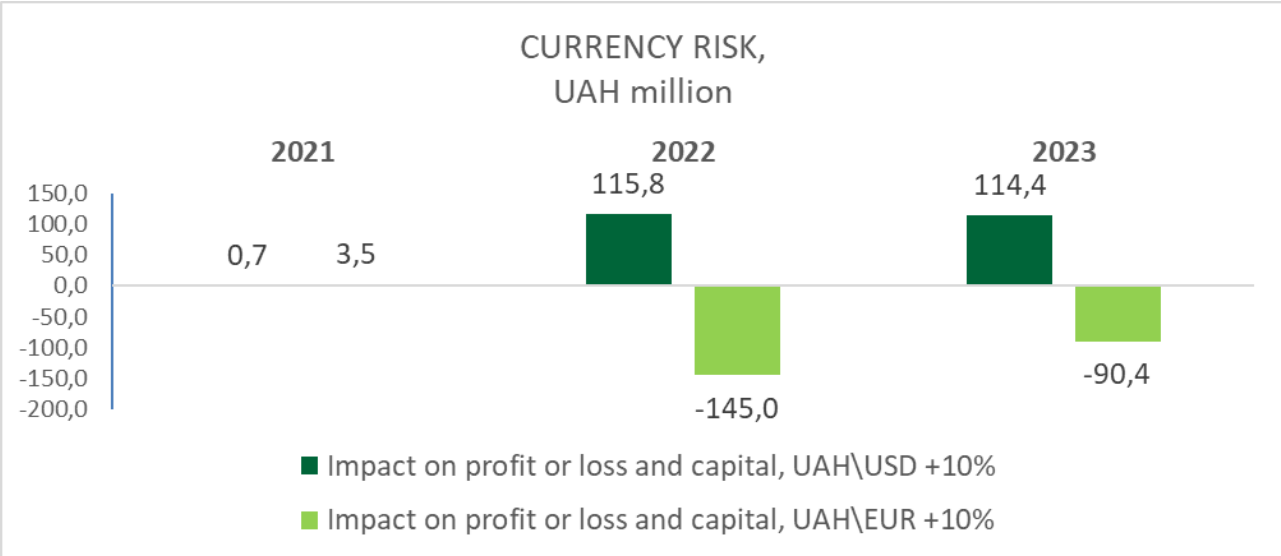
Market risk management is carried out both for the trade book (assets and liabilities that are traded in order to profit from short-term fluctuations in the value of these assets and liabilities and trade book hedging instruments) and for the bank book (assets and liabilities that are not included in the trade book).

The highest collegial body of the bank that manages market risk is the Asset and Liability Management Committee, which was established in accordance with the decision of the Bank's Supervisory Board.

Market risk management is carried out at the level of trading and banking books. The trading book applies limits that take into account the sensitivity of the value of financial instruments in the portfolio to changes in market prices. For this purpose, the metrics BPV, VaR limits, ES (Expected shortfall) limits and "Stop Loss" type limits are used, which limit the realized loss in the portfolio.

OTP Group has set a zero tolerance for currency risk (the maximum position limit is +/– USD 10 million for the period of martial law), so the bank avoids an open currency position in the bank book. During 2023, the size of the open currency position was determined by the bank's treasury operations in the trade book within the limits set by the National Bank of Ukraine, as well as deductions to reserves to cover credit risk on loans denominated in foreign currencies. Since the bank did not make significant deductions to reserves during 2023, the bank ended the year with a small short open currency position within the agreed limits.

With regard to other market risks, namely the risk of changes in interest rates on securities in the bank's trading book, the limits had minimal use due to the small size of the bank's trading portfolio, which was dominated by short-term reverse repo instruments.



Operational Risk Management

Operational risk is the probability of losses, additional expenses or shortfall in planned income due to shortcomings or errors in the organization of internal processes, intentional or unintentional actions of bank employees or other persons, failures in the operation of the bank's information systems or due to external factors.

Operational risk is inherent in any activity, so it is impossible to completely avoid it. Operational risk management is aimed at minimizing the effect of operational risk events through the application of appropriate response measures, minimizing the probability of operational risk events, implementing an internal control system and transferring/distributing risk through insurance tools and outsourcing processes.
The bank's internal control system is based on the division of functions of the bank's divisions into the first line of defense, which includes all business divisions and support divisions, the second line of defense, that is, control,

which consists of risk management divisions and compliance divisions, and the third line – internal audit. The focus of the bank's internal control system and resource allocation is primarily determined by the process of regularly collecting information on operational risk events, analyzing cause-and-effect relationships, and introducing changes to the bank's products and processes to minimize the likelihood and scale of losses in the future. Another structural element of the internal control system 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 susceptible to operational risk events. The result of the analysis is taken into account when establishing indicators of tolerance to losses as a result of the implementation of operational risk events, namely, in the process of calculating the maximum amount of losses, which is accepted by the bank as part of the functioning of an effective internal control system, in which non-compliance with income or operating costs for further risk minimization will be higher than the amount of risk reduction.

Other operational risk management tools include key risk indicators and stress scenarios. Key risk indicators complement the system of internal controls, setting limits on the frequency and/or scale of the effect of operational risk events or events that can lead to the implementation of operational risks in the context 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 event. At the same time, stress testing of operational risk events uses the accumulated experience and modeling process to assess the likely impact in the event of adverse scenarios that occur infrequently, but the effect of which is very significant. Each year, in accordance with the extended measurement approach, the bank calculates the amount of capital required to cover losses from the occurrence of operational risk events.

For the smooth functioning of the bank in the event of an emergency, the bank has developed a Plan to ensure the continuous operation of the Head Office and Plans to resume the activities of divisions. The business continuity plan developed as a whole for the Bank's Head Office provides for the possibility of resuming the activities of the Bank's Head Office as a whole to the required extent, depending on the scale of the consequences of force majeure, in an agreed sequence and in accordance with certain priorities. Plans to resume the activities of divisions provide for the possibility of resuming the activities of a separate division of the Bank in the required volume, depending on the scale of the consequences of force majeure, in an agreed sequence and in accordance with certain priorities. The Bank regularly tests plans to ensure the continuity of operation and resumption of operations.

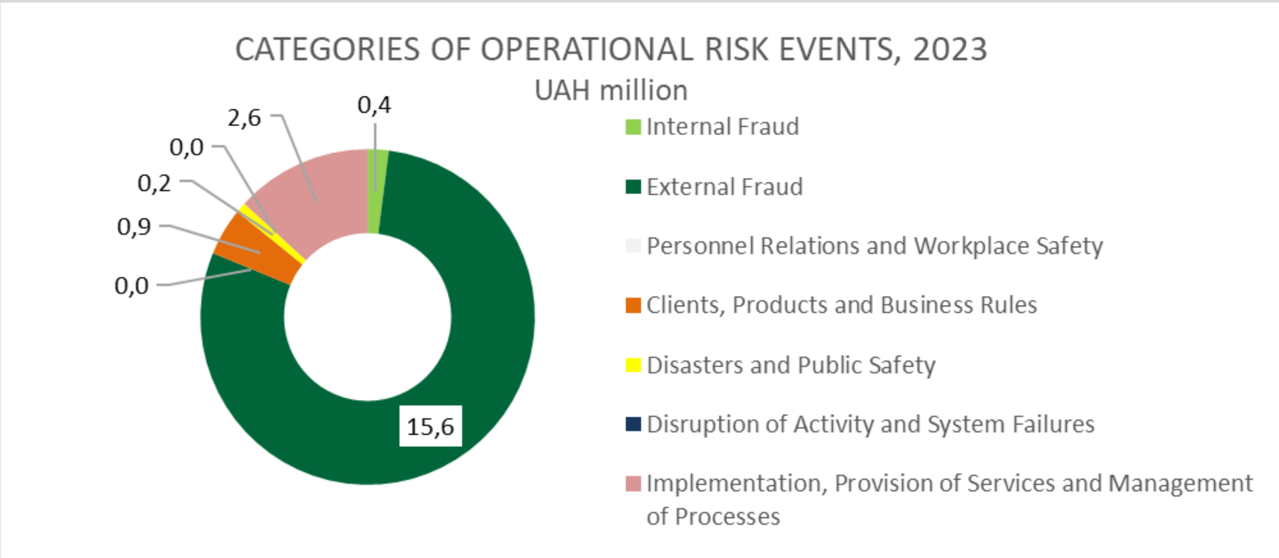
In the case of outsourcing banking processes, the Bank continues to monitor the risks of these processes by determining the quality and timeliness criteria for providing services by the outsourcing provider, collecting information on operational risk events, analyzing plans for resuming the outsourcer's activities, and conducting audits of the outsourcing process by the Bank's internal audit.

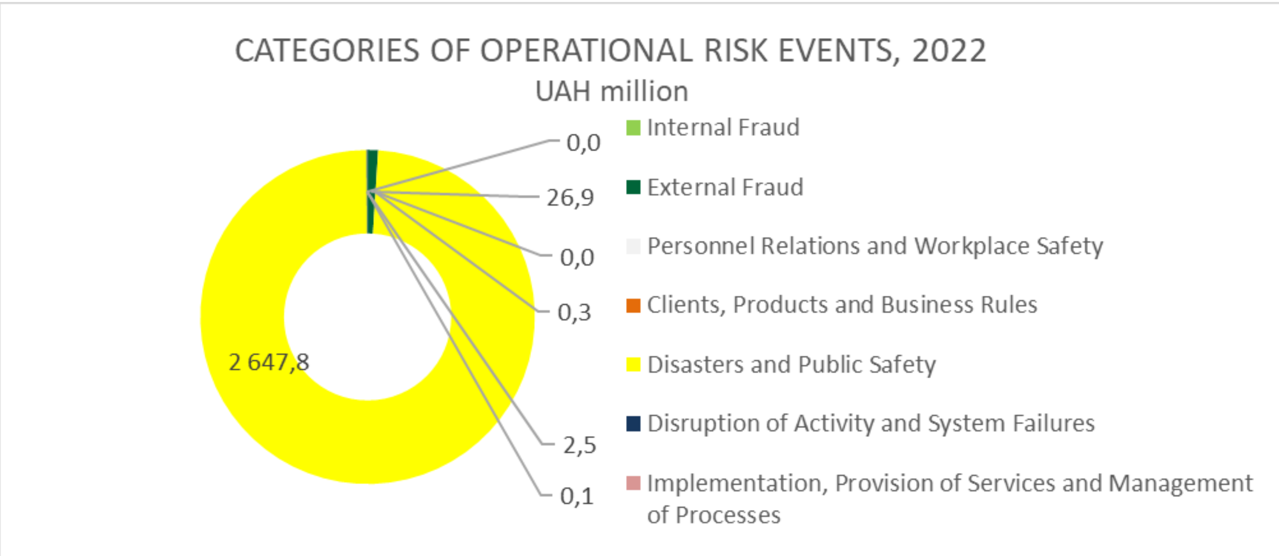
Operational risk is the residual risk resulting from the application of risk minimization measures within the internal control system. Risk limits are distributed between business lines and categories of types of operational risk events and set as a percentage of operating income or in absolute terms.

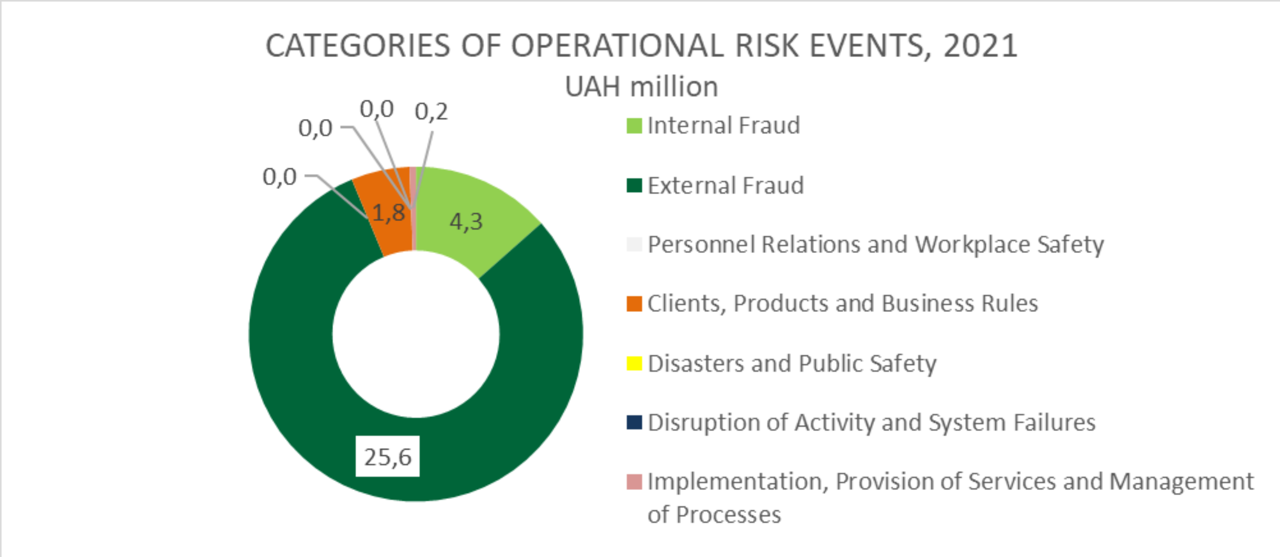
Information and Communication Technology Risk Management (hereinafter referred to as ICT) and Information Security Risk (with the allocation of cyber risk in its composition) is part of the Bank's operational risk management system, taking into account the impact on other risks inherent in its activities. Today, the Bank pays more and more attention to the risk management of information and communication technologies and information security. There are several main reasons for this: the continuous growth of the use of information technologies in the Bank's business processes, the increase in the value of processed information, as well as the integration of various information products to cover all the Bank's needs.

When defining measures to manage ICT and information security risks (with the allocation of cyber risks), the Bank takes care that they are proportional to the real threat and harm to the Bank, as well as that control measures are able to mitigate the risks associated with this. When assessing losses, the Bank takes into account not only material losses that may be caused by these types of risk, but also the risk of causing non-material damage, in particular damage to the Bank's reputation.

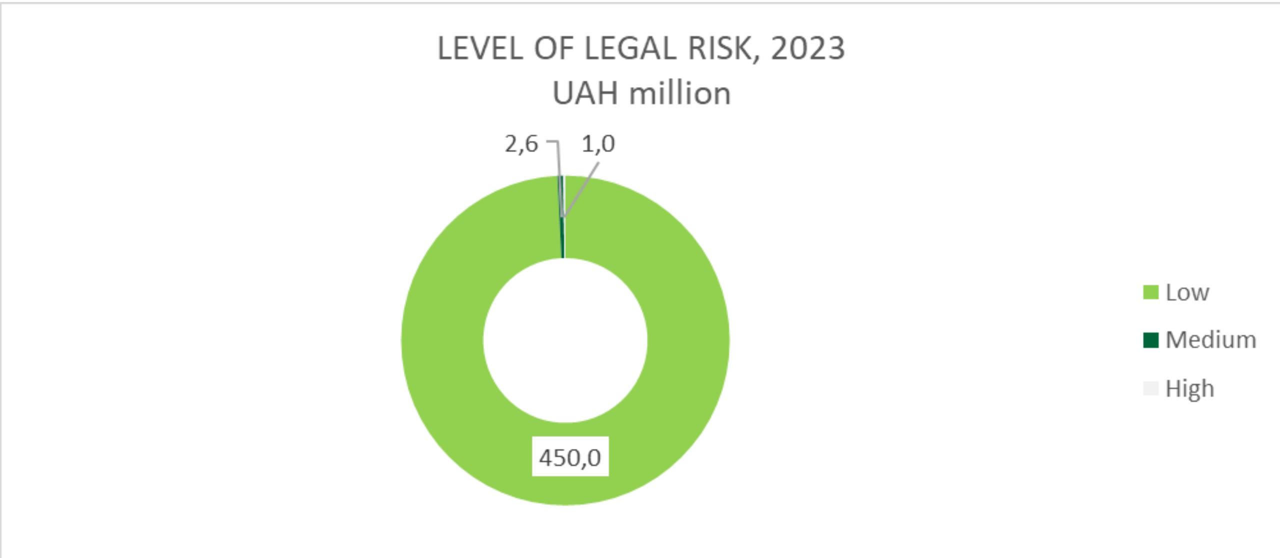
In 2023, a minimal number of new operational risk events related to the result of military aggression were registered, rather, the amount of financial losses of previously identified events was overestimated. More than 60% of losses from the implementation of operational risk events not related to military operations were losses of the retail business line, 80% of which were the result of external fraudulent actions with the Bank's clients' funds in the social engineering format.

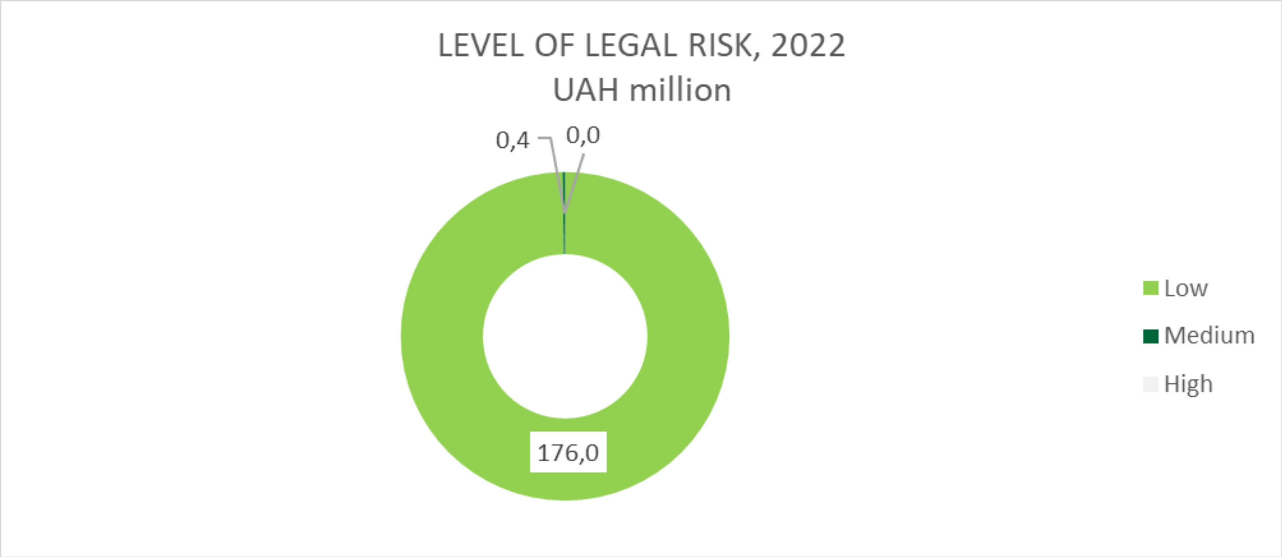


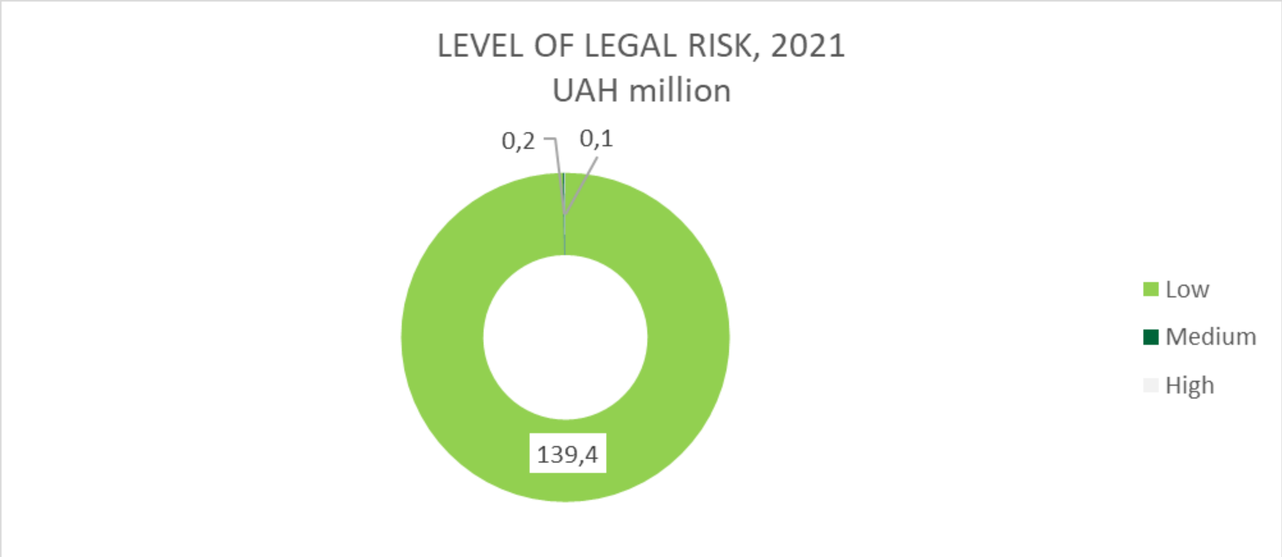




Legal Risk Management as part of operational risk occurs through the distribution of the size of the portfolio of material lawsuits into categories from low to high risk, depending on the stage of claim-related work and the availability of decisions in favor of the Bank, while reserves are created for the entire size of the portfolio, which is assigned a high level of risk. During 2023, the Bank increased the total amount of legal risk in claims in which the Bank is a defendant to UAH 453 million, at the same time, the structure continues to be dominated by lawsuits with a low level of risk.







The information security management system is of strategic importance for the Bank. The Bank's Information Security Management System must meet the needs and goals of the Bank as a constantly developing organization, its security requirements, used organizational processes, as well as the size and structure of the organization.
The Bank's goal regarding the Information Security Management System is to preserve the confidentiality, integrity, authenticity and availability of information through the use of risk management processes and thus prove to stakeholders that information security risks are managed properly.
The Bank develops information security functions and related tasks in such a way that the effort required to complete each task is proportional to the associated information security risks. The Bank is constantly developing the ability to prevent, detect, and respond to information security incidents in order to reduce the likelihood of adverse events and their impact to an acceptable level. It takes into account the use of information security solutions that minimize the user experience. The Bank strives to have the expertise and tools to keep the risk of threats to the bank at an acceptable minimum level, effectively prevent IT-attacks on it, isolate unexpected events to keep them under counter-control, and recover from IT-threats.

Strategic Risk Management

Strategic risk is the probability of losses or additional losses or shortfalls in planned revenues due to incorrect management decisions and inadequate response to changes in the business environment.
Strategic Risk Management is based on an annual assessment of the viability of the Bank's business model and its vulnerability to macroeconomic shocks, as well as regular (quarterly) monitoring of early response indicators to changes in the Bank's position in the market and the relative effectiveness of the Bank's business model.
Indicators of the viability of the Bank's business model are the SREP indicator, the results of stress testing of the Bank's business plan, and the analysis of the Bank's dependence on one of the bank's business lines and/or source of income. Indicators of early response to changes in the Bank's position in the market and relative efficiency of the Bank's business model are significant change in the Bank's market share over the course of the year in terms of loans and deposits to legal entities and individuals, respectively, a significant non-fulfillment of general banking key performance indicators, and banking performance indicators that are worse than the average for a group of similar banks.

Reputational Risk Management

Reputation risk is the probability of losses or additional losses or shortfall in planned income due to unfavorable perception of the Bank's image by customers, counterparties, shareholders, supervisory and regulatory authorities. Reputational risk can be considered as an independent risk (primary), as well as an additional risk (secondary) arising from some other risk.
Management of primary reputational risk, that is, reputational risk, which is based solely on external factors, occurs by monitoring Reputation Indicators (RI) in external sources (media, social networks, etc.) and in the context of the main stakeholders of the Bank: the public, customers, the regulator and employees.
Management of secondary reputational risk, i.e. risk based on internal causes (implementation of other types of risk: operational, credit, liquidity risk, etc.), occurs by:

- monitoring on an ongoing basis of Key Risk Indicators (KRI) related to reputational risk;
- integration of reputation risk identification into the Bank's internal processes (for example, the process of introducing new products, attracting new customers, outsourcing the bank's processes).

Appropriate risk mitigation measures are taken as usual in the event of exceeding the signal or critical levels of RI and KRI, or in the event of critical events as part of the reputational risk management process in crisis situations.

13. CORPORATE BUSINESS LINE ACHIEVEMENTS

In 2023, OTP Bank continued to provide continuous financing to legal entities and issued loan agreements for a total additional amount in equivalent to UAH 6.3 billion. Traditionally, the share of agricultural business financing was the largest and amounted to 50% of this amount.
Working capital financing of companies was the main focus of financial support. At the same time, for the first time since the beginning of full-scale military operations in Ukraine last year, the bank resumed services for providing investment lending to corporate clients for up to 5 years.

To provide financial support to new and existing clients, especially representatives of medium and small businesses, the bank has significantly expanded cooperation with such international financial institutions as EBRD and IFC. According to the terms of the signed agreements, they share with OTP Bank up to 50% of the risks of the Bank's new loan portfolio, namely: EUR 40 million - EBRD and EUR 30 million - IFC. This was another confirmation of OTP Bank's high assessment and reliability by international organizations.

In addition, in order to support sustainable investments in energy-saving technologies by small and medium-sized enterprises, in particular to meet the needs of local agricultural producers in updating agricultural machinery with modern products of world brands, OTP Bank, in cooperation with the EBRD, offered a unique program — loans with the possibility of partial compensation of their amount. The amount of compensation depends on the type of asset and can reach 20% of the financed value.

The bank lending market in 2023 was characterized by significant price competition for borrowers, increased, among other things, by repeated reduction of the discount rate and the cost of deposit certificates by the NBU during the year. Therefore, the Corporate Business Line developed various options and offered its customers the most optimal price offers. In particular, the financing provided by OTP Bank within the framework of the state program "Affordable Credits 5-7-9", which the Bank has been a member of since November 2020, was very popular among borrowers. The borrower's compliance with the terms of the program makes it possible to significantly reduce the interest burden on loans and credit lines. The total amount of financial support provided by the Bank to Ukrainian businesses under this program last year amounted to UAH 2.3 billion,

In mid-December 2023, the Bank expanded its participation in this program by signing an Agreement on Affordable Factoring among the first banks and thus created additional unique and attractive conditions for offering factoring financing to its clients.

In 2023, OTP Bank became the only bank to receive a grant of USD 1.2 million from the world's premier international development agency USAID. USAID Financial Sector Reform Project and OTP Bank have launched a joint program to expand access to capital for small and medium-sized businesses. The grant allows the Bank to provide financing in the amount of more than UAH 500 million at a low interest rate for about 100 target companies. The project's funding aims to finance working capital for companies that have lost assets as a result of military operations, moved businesses to safer regions, businesses in critical industries, and companies that have women among their owners. The grant also allows you to finance some companies using the modern credit product factoring, which the Bank seeks to develop and popularize among customers. The project was launched on October 12, 2023 and by the end of the year UAH 295 million had already been financed under the program.

In 2023, as part of the innovative project Agrofabryka, financing of agricultural producers with the land from 200 to 10,000 hectares, the Bank additionally provided more than UAH 1 billion. Within the framework of Agrofabryka, for 7 years now, financing has been provided to farmers quickly, with a minimum package of documents and secured by financial agricultural receipts. OTP Bank remains the largest bank that uses this instrument as collateral. In 2023, 115 agricultural receipts totaling UAH 1.2 billion were issued. In total, during the existence of Agrofabryka, 1,200 agricultural receipts totaling UAH 8.4 billion were issued. Also, within the framework of Agrofabryka project, the Bank cooperates with a large number of partners, suppliers of agricultural products, seeds and fertilizers, which allows borrowers to receive financing under partner programs at a rate starting from 0.01% per annum in UAH. UAH 170 million were financed under such programs in 2023.

OTP Bank pays a lot of attention to speeding up and optimizing internal processes to maximize customer satisfaction. So, to achieve this goal, in the process of financing small and medium-sized clients, a team of specialists was created that works according to the principles of Agile. Over the past year, this team has managed to create a fully digitalized credit process in the Bank's CRM system from the stage of submitting an application by the client to making a decision by the Credit Committee. Next year, Agile team will continue this project and aims to complete the year with a fully automated process of financing small and medium-sized clients before the stage of issuing credit funds to the client's account.

The focus of the Corporate Business Line was also the continuation of the transfer of the maximum number of activities related to the overall lending process to digital form, optimization and automation of processes. Among the most significant achievements was the transfer of client letters and credit documentation into electronic form with convenient imposition of electronic digital signatures (EDS) on them. Now more and more customers sign contracts with the Bank remotely, without visiting the Bank's office. This significantly speeds up the process of signing documents by the parties and allows you to abandon paper media.

Due to the reliability and quality of service, almost 5 thousand legal entities chose OTP Bank to open a current account in 2023.

Corporate Business Products

OTP Bank continues to develop the Bank's products and processes. In the corporate business during 2023 OTP Bank developed digital channels and services, paying attention to the most popular and mass operations of our clients:

1) The Bank has introduced new services to improve convenience and accessibility of the **transactions with foreign currency.** Currently, OTPay provides information on the foreign exchange agreements under which the foreign currency transaction was carried out, the calendar of terms for the return of foreign exchange proceeds, online tracking of SWIFT payments and copies of all documents with bank marks. Also, for the Bank's clients, a preliminary review of foreign exchange agreements and direct advice from currency control specialists of the Bank are available completely through online channels.

2) In 2023 micro and small and medium-sized bank customers were able to request and receive financing for Wellcome Overdraft product via Click OTPay. Wellcome Overdraft product is already used by hundreds of bank customers and is currently one of the most popular products that allows you to get financing quickly and online.

3) OTP Bank customers were able to replace traditional cash checks with electronic ones in OTPay having received the opportunity to receive cash at a certain time and at any branch of the Bank;

4) The Bank's clients have the opportunity and actively use services for remote account opening, including remote (video) verification of a representative, updating and signing documents exclusively using OTPay services.

The Bank continues to develop digital services to provide always up-to-date and convenient services to our clients.

14. REACHING THE RETAIL BUSINESS LINE

Achievements and recognition in the retail business segment

OTP Bank is one of the largest Ukrainian banks with foreign capital, a recognized leader in the retail financial sector of Ukraine. Through 72 Branches in all regions of Ukraine (except temporarily occupied territories), the Bank provides a full range of financial services to its clients.

In general, 2023 was the year during which it was possible to consolidate the client-centered approach in the work of OTP Bank. The bank's performance improved significantly: NPS grew by 8% over the year to 58%. 93% of customers are satisfied with the work of information center operators, and 97% highly appreciate the work of employees of the Bank's Branches.

Any changes to processes and products are based on the customer's needs. The Bank implements the service design ideology in all areas of work, and individual product teams even include the service of designers.

Despite the ongoing war, OTP Bank has been showing an increase in individuals' funds for many years in a row. So in 2023, the corresponding figure amounted to UAH 1.38 billion, or the liabilities of individuals increased by 11.4%. The growth driver is an increase in the number of active clients of the Bank and an increase in customers who trust their funds and place them on deposits with OTP Bank. Their number doubled in 2023, and the deposit portfolio grew by 38.2%.

The Bank is actively developing remote customer service channels. So, starting from 2023, clients will be able to manage their funds, place deposits and invest in government bonds through OTP BankUA application. OTP Bank did not forget about additional bonuses for customers who placed deposits during 2023. In particular, sweepstakes for portable charging stations and additional interest to already placed deposits were held.

In 2023, before the existing consumer lending and credit card issuance, OTP Bank resumed cash lending to individuals, which will give an impetus to the development of this area and meet the needs of customers for additional funds.

OTP Bank has also launched cash loan processing via OTP BankUA mobile application. The process involves the client receiving funds up to UAH 100 thousand on the card in 5 minutes without calls from the Bank and visits to the Branch.

In addition, starting from the second quarter of last year, the Bank's customers can become holders of "Ladna" credit card by opening it online in OTP Bank UA application. The credit card provides a grace period of 62 days, has simple and clear terms and an authentic design.

Instant installment plan "Skybochka" during 2023 received new partners. Among them: "Allo", "Citrus", "Sportlife" and others. The number of users of this service has increased 3 times over the past year.

Also in 2023, OTP Bank has resumed lending for used cars. The Bank provides customers with the freedom to choose a car (without restrictions on age and mileage), while there are no additional encumbrances, without collateral and mandatory CASCO insurance. The decision on the loan and transfer of funds is made within 1 day.

New Premium Banking Business Model

In 2023, the premium business was transformed. Thanks to a highly organized approach to creating and implementing a new business model, employees from other departments were involved and a number of studies were conducted.
In order to understand what is currently valuable to the premium customer, what were his expectations, to identify his "pains" and needs, 27 in-depth interviews and 159 quantitative surveys of both current premium customers and premium customers who made the decision to close accounts, were conducted. Additionally, the research company "4Service" was involved in surveys of 30 premium customers of other banks.

To analyze the behavior of premium customers, a mathematical model was used that examined the age, gender, socio-demographic status of customers, as well as their transactional behavior and the level of product penetration. Based on the results of the cluster model, premium clients were divided into three categories, the profile of the premium client was determined, and rules were formed that are inherent in each of the client categories.
After a series of studies, their analysis, confirmation or refutation of hypotheses, a new Premium Business Model was identified.

The new Premium Business Model is a comprehensive approach to premium customer service, family and business, which meets the daily needs of the client when interacting with the Bank and provides financial solutions necessary for building long-term relationships with him.

OTP Bank becomes the only provider for the premium client that meets all their financial needs, including loans, deposits and other financial products.

The new product for premium customers "PREMIUM FAMILY AND BUSINESS" positions itself and includes:

- ✓ **Business maintenance** – one premium manager for individuals and sole proprietors;
- ✓ **Family service –** family members are full-fledged premium customers who are served by the same premium manager and receive the same offers as the main product owner;
- ✓ **Secure solutions** – a new option to insure funds against fraud and social engineering, which is an important element of the new product;
- ✓ **Financial solutions** – include new offers for the client that are in demand in modern realities.

Creating a new Premium Business Model is just the beginning of a strategy that aims to build and develop long-term relationships with premium clients in terms of Premium Family and client business development.

15. TREASURY ACHIEVEMENTS

OTP Bank's Treasury offers a wide range of products and services to companies, as well as institutional investors: spot currency transactions for corporate and retail clients; currency swaps, various money market instruments and repos for financial institutions. Opportunity to purchase government bonds of G7 countries for banks. In its strategy and work, the Treasury is guided by the vision: "To remain one of the most reliable and successful Treasuries in Ukraine."

OTP Bank's Treasury has two strategic goals:

- maintain leadership in the provision of financial services, the main value of which is highly professional expertise;
- be the main partner of corporate, retail line clients, premium segment clients, as well as their business.

Despite the war, Treasury revenues were kept at a high level and even exceeded the planned figures. This is the result of a balanced portfolio of services that includes trading for your own needs and on client requests. The growth was primarily due to the rapid response to changes in legislation and market conditions.

According to the rating of the Ministry of Finance of Ukraine for 2023, OTP Bank ranked fourth among primary dealers.

16. BANK'S FUTURE. DIGITALIZATION AND REMOTE SALES CHANNELS

2023 was a time of active digitalization of services in OTP Bank UA mobile application for OTP Bank. Making a cash loan and opening a credit card, opening a deposit under standard or individual conditions, transfers between accounts both within the Bank and to other Ukrainian banks, conducting currency exchange operations and paying for internet and television services. A large number of non-financial services were also implemented: adding cards to Google Pay and Apple Pay wallets, expanding the categorization of transactions, generating receipts for any operations in the application, managing a word-password, and protecting critical operations in the application.

In 2023, OTP Bank became the first bank in Ukraine to provide customers with the opportunity to participate directly in auctions of the Ministry of Finance of Ukraine on the purchase of government bonds via OTP Bank UA mobile application. The Bank's clients received an effective tool for investment and state support in difficult times. At the beginning of 2024, 10% of all government bonds in Ukraine were purchased in OTP Bank UA application.

An important focus for the Bank in 2023 was the charity. So, in the summer of 2023, OTP Bank UA application added a Charity Section where customers can transfer funds to the account of the desired charity foundation without commission. And in December 2023, for the first time among Ukrainian banks, a charity auction was held in OTP Bank UA mobile application, the funds raised from which were sent to Superhumans Center Foundation.

More than 200,000 OTP Bank customers installed OTP Bank UA mobile application for the first time and tried out new products and features that appeared in the application. More than 90% of the clients of the old OTP Smart application were transferred to the new one.

17. CORPORATE MANAGEMENT

In order to realize the intentions of the shareholder and the Bank's Management to achieve the highest level of performance, the ability to instill confidence in partners and customers in the long-term economic potential of the Bank, the Bank adopted its own Principles (Code) of Corporate Management, document that sets out the attitude of the shareholder and the Bank's Management to the main problems of corporate management and methods of their solution in the Bank.

The Bank uses a two-level management structure. The Bank's management bodies are the General Meeting of Shareholders, the body responsible for supervision, the Supervisory Board, and the executive (collegial) body, the Management Board.

The two-level management structure provides for a clear distribution of the functions of direct management of the current (operational) activities of the Bank, which are carried out by the executive body - the Management Board, and the functions of monitoring the work of the Management Board, as well as other managers of the Bank (including heads of Control and Internal Audit Divisions), are carried out by the Supervisory Board.

Shareholder of the Bank

A Bank shareholder must protect the interests of the Bank and its depositors by actively using their powers at the General Meeting of Shareholders, the Bank's Highest Management Body. The shareholder takes all necessary measures to ensure that the Bank's ownership structure does not interfere with corporate management at the proper level, only competent and reliable persons who can bring their own experience to the benefit of the bank are elected members of the Supervisory Board, and the Supervisory Board is accountable and responsible for the Bank's activities and financial condition. When making its own decisions, the shareholder must first take into account the interests of the Bank's interested parties, namely depositors, other creditors, Bank employees and others. In turn, the Bank promotes and protects the rights and legitimate interests of the shareholder stipulated by the Charter, the Regulations on the General Meeting of shareholders of the Bank and the current legislation of Ukraine. The right of a shareholder to participate in the management of the Bank is exercised through his participation in the General Meeting of Shareholders of the Bank.

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 competence defined by the legislation and the Bank's Charter, controls the activities of the Bank's Management Board. The Supervisory Board does not participate in the current management of the Bank. The Supervisory Board monitors the activities of the Bank's Management Board, compliance with the Charter and any other relevant Regulations. In this regard, the Supervisory Board has the right to verify the accounting data and the implementation of any managerial functions in the Bank. The Supervisory Board reviews the annual financial statements, including profit sharing proposals and the Annual Report of the Management Board, and submits its comments thereon for consideration by the General Meeting. The Supervisory Board of the Bank forms committees (Audit Committee, Risk Management Committee, and Remuneration and Appointments Committee) from among the members of the Supervisory Board for preliminary study and preparation for consideration by the Supervisory Board of issues falling within the competence of the Supervisory Board. At the end of the year, the Supervisory Board reports to the General Meeting on its activities.

Management Board of the Bank

The Management Board is the Bank's executive body that performs current management. The Management Board is accountable to the General Meeting of Shareholders and the Supervisory Board, and organizes the implementation of their decisions. The Management Board develops and submits drafts of the Bank's annual budget and strategy to the Supervisory Board for approval and ensures their implementation. The Bank's development strategy defines existing and promising banking products and services, markets, areas of action in which the Bank plans to achieve an advantage over its competitors, as well as the Bank's needs for financial, operational, technological and human resources.

The Supervisory Board approves the Bank's development strategy in accordance with the main areas of activity determined by the General Meeting of Shareholders of the Bank. The Management Board of the Bank is responsible for implementing the Bank's development strategy. 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 Management Board submits to the Supervisory Board a report on the status of implementation of the Bank's development strategy, on the financial and economic condition of the Bank and the progress of implementation of plans and tasks. The Management Board and the Supervisory Board hold joint meetings at least once a quarter. The Bank is obliged to ensure the annual audit of the separate and consolidated financial statements of OTP Bank JSC, annual consolidated financial statements (combined statements) of OTP Bank's Foreign Banking Group and other information on the financial and economic activities of the Bank by an audit firm in accordance with the legislation of Ukraine, in including regulatory legal acts 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 Management Board reports to the Supervisory Board on its activities, the Supervisory Board reviews the annual report of the Management Board and takes measures to improve the mechanisms of the Management Board's activities.

Corporate Secretary

The Bank has introduced the position of Corporate Secretary. The Corporate Secretary is an official who is responsible for effective ongoing interaction of the Bank with Shareholders, other investors, coordination of the Bank's actions to protect the rights and interests of Shareholders, maintaining the effective work of the Supervisory Board, and performs other functions defined by the Law of Ukraine On Joint-Stock Companies, the Bank's Charter and the Regulations on the Corporate Secretary.

Independent Divisions of the Bank

The Bank forms a permanent Risk Management Division that is subordinate and accountable to the Bank's Supervisory Board and must be responsible for implementing internal risk management regulations and procedures in accordance with the Risk Management Strategies and Policies, procedures and regulations defined by the Supervisory Board. The Bank has also created a permanent Compliance Control Division (hereinafter referred to as the Compliance Department), which is responsible for:

- ensuring the organization of control over the Bank's compliance with legal norms, intra-Bank/intra-Group documents and relevant standards;
- ensuring monitoring of changes in legislation and relevant standards and assessing the impact of such changes on the processes and procedures introduced in the Bank, monitoring the implementation of relevant changes in internal Bank documents;
- providing explanations and advice to the Bank's Managers in response to their requests on monitoring the Bank's compliance with the legislation of Ukraine and relevant standards;
- control over compliance risk that arises in the Bank's relations with customers and counterparties in order to prevent the Bank from participating in or using it in illegal operations,
- monitoring compliance with the mechanism of confidential notification of unacceptable behavior in the Bank/violations in the Bank's activities;
- ensuring risk management related to conflicts of interest,
- <u>monitoring on a regular basis for the absence of conflicts of interest between the Bank's managers and the subject of evaluation activities;</u>
- ensuring the organization of control over the Bank's compliance with the norms on timeliness and reliability of financial and statistical reports;

- ensuring the organization of control over the compliance of the processes regarding the management of problem assets with the legislation of Ukraine and internal bank documents;
- ensuring control over the Bank's compliance with the rules for determining the list of persons associated with the Bank to ensure the integrity and completeness of the process of identifying persons associated with the Bank and monitoring operations with them;
- preparation of conclusions on compliance risk, which is inherent in new products and significant changes in the Bank's activities and on compliance risk, for making credit decisions on loans to individuals associated with the Bank;
- monitoring the compliance of the system of compensations and reimbursements introduced in the Bank, as well as procedures for bringing Bank employees to disciplinary responsibility with the requirements of the legislation of Ukraine;
- preparation of the compliance risk reports;
- calculating 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 by implementing timely identification, measurement, monitoring, control, reporting and providing recommendations for mitigating compliance risk;
- ensuring training and awareness of Bank employees on compliance with legislation, relevant standards, and risk management culture, taking into account the Bank's Code of Ethics.

The Compliance Department reports to the Bank's Supervisory Board and performs its duties in accordance with internal procedures and current legislation of Ukraine.

The Chief Compliance Manager ensures coordination of work on compliance risk management issues between the Bank's structural divisions, ensures the development and participates in the development of intra-Bank documents in the compliance direction. In case of excessive risks to which the Bank may be exposed, he is obliged to inform the Supervisory Board of the Bank, the Risk Management Committee and the Management Board of the Bank about such risks. In case of detection of confirmed facts of unacceptable behavior in the Bank / violations in the Bank's activities and conflicts of interest, the National Bank of Ukraine is informed about them, if the Supervisory Board of the Bank has not applied measures that ensured their elimination.

The Bank forms an independent functional structural division of internal audit, which is functionally subordinate and accountable to the Supervisory Board and operates on the basis of Regulations approved by the Supervisory Board of the Bank.

The Internal Audit Division, which provides a third line of defense, independently checks and evaluates the adequacy and effectiveness of the organization of corporate management, the operation of the internal control system, including the Risk Management System, and the Bank's management processes, their compliance with the size of the Bank, 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 there is such a status) and/or the activities of the Banking Group, which includes the Bank, the organization of the internal anti-money laundering/terrorist financing system, the risk management system for money laundering/terrorist financing.

The work of the Internal Audit Division is carried out in accordance with the annual plan approved by the Bank's Supervisory Board. The Internal Audit Division reports quarterly to the Bank's Supervisory Board (audit committee) and the Bank's Management Board on the status of execution/implementation of recommendations and elimination of comments identified during audits. The annual report to the Bank's Supervisory Board and the Bank's Management Board contains information on the assessment of internal control systems, risk management, corporate management, significant shortcomings identified during the reporting period, proposed/agreed measures to correct the situation, as well as the degree of implementation of these measures.

Compliance Risk Reporting

The Chief Compliance Manager regularly submits reports on compliance risk and compliance risk assessment to the Bank's Supervisory Board, Risk Management Committee and the Bank's Management Board at least once a quarter or more often in cases established by the legislation of Ukraine.

Fiduciary Obligation

One of the fundamental concepts underlying corporate management is the concept of fiduciary obligation. A fiduciary obligation exists where one person, the client or owner, places particular hope or expresses trust in another person, the fiduciary, and relies on him, while the fiduciary acts in the interests of that person at his own discretion, using his own experience. Fiduciary obligations are assigned to the Bank's managers, who are responsible for managing and monitoring the Bank's activities. According to the Law of Ukraine On Banks and Banking Activities, Bank managers are required to act in favor of the Bank and customers and put the Bank's interests above their own. Managers of the Bank (chairman and members of the Supervisory Board of the Bank, Deputy Chairmen and members of the Management Board of the Bank, Chief Accountant, Deputy Chief Accountants) must fulfill their duties of loyalty and careful attitude 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 should avoid conflicts of interest in their work and recuse themselves from participating in decision-making if they have a conflict of interest that does not allow them to properly perform their fiduciary duties in the Bank. Bank managers must inform in a timely manner, in accordance with the Bank's current procedures, about the existence of a conflict of interest that may affect their performance of fiduciary obligations. The manager of the Bank must be suspended from voting or otherwise participating in the Bank's adoption of any decision in respect of which there is a conflict of interest.

Transactions with Related Parties

Transactions made with persons associated with the Bank cannot provide for conditions that are not current market conditions. The process of identification and detection of the related parties of the Bank, the procedure for making transactions with them, the process of supervising such operations, as well as approving and reviewing transactions with related parties of the Bank are regulated by the relevant internal procedures of the Bank.

Prevention of Sanctions' Violation

In order to protect national interests, national security, sovereignty and territorial integrity of Ukraine, counter terrorist activities, as well as prevent violation of the legitimate interests of citizens of Ukraine, society and the state, the Bank's reputation, 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/sensitive transactions, and then gives a conclusion and assessment of compliance risk regarding the possibility of such a transaction or establishing a business relationship.

System of Confidential Notification 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 allows them to freely report their concerns about illegal, unethical or questionable practices, without fear of possible sanctions. The Bank has introduced procedures by which Bank employees can inform about their significant suspicions, regardless of the internal chain of command system. The Early Information System includes mechanisms to ensure the protection of employees.

Protection of the Rights of Financial Services' Consumers

As a responsible financial service provider, the Bank pays special attention to protecting the rights and interests of consumers, as well as the quality of services provided to consumers. The Bank ensures that its employees who are in direct or indirect contact with consumers receive appropriate training on consumer protection issues and therefore understand and apply consumer protection rules properly, as well as act with due care and diligence.

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

In order to avoid and/or minimize the risks of violation of the requirements of the legislation of Ukraine on consumer protection by the Bank's employees, the Compliance Department constantly monitors the Bank's compliance with the requirements of the legislation of Ukraine on consumer protection, including regulatory documents of the National Bank of Ukraine, the Deposit Guarantee Fund of Individuals, Methodological recommendations of authorized bodies, in particular, but not limited to: Laws of Ukraine On Consumer Protection, On Financial Services and State Regulation of Financial Services Markets, On Advertising, On Consumer Lending, and others. Special attention is paid to compliance with the requirements for interaction with consumers in the settlement of overdue debts regarding the requirements for ethical behavior.

Access to Information and Information Protection

The Bank provides 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, clients, other creditors, investors, shareholders and other interested parties to receive information that may significantly affect their investment decisions.
The Bank's information policy is developed taking into account the Bank's need to protect information with restricted access (Confidential Information, Commercial and Bank Secrets). The Bank takes measures to protect information with restricted access, ensures its storage and sets the appropriate mode of operation with such information. The Bank determines the list of such information, observing the optimal balance between the Bank's openness, the need to protect its own commercial interests and the interests of the Bank's clients, as well as taking into account the requirements of current regulatory legal acts. The Bank guarantees secrecy on transactions, accounts and deposits of its clients and correspondents. Information about legal entities and individuals that contains Bank secrets is disclosed in accordance with the current legislation.

Anti-Corruption Principles

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

In order to strictly comply with all the requirements of the Ukrainian anti-corruption legislation, the bank has approved the Anti-Corruption Program of OTP Bank JSC (hereinafter referred to as the Program) based on the current Anti-Corruption Policy of OTP Group. The rules of the Program provide that the Bank, aware of the responsibility for affirming the values of the rule of law and integrity, striving to ensure its sustainable development, taking care of its own business reputation, to encourage the use of fair commercial practices, as well as in the interests, in particular, but not exclusively, of its employees, officials, managers and founders (participants), business partners and clients, declares that its founders (participants), management bodies, officials and employees in their internal activities, as well as in legal relations with business partners, clients, 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 provided for by law to prevent, detect and combat corruption and related actions (practices).

The Program sets standards and requirements in accordance with the Law of Ukraine On Prevention of Corruption and the Standard Anti-Corruption Program approved by the Order of the National Agency on Corruption Prevention. The Program defines and regulates the mechanism for monitoring compliance with the requirements of the legislation of Ukraine on preventing, detecting and combating corruption and the mechanism for preventing abuse by managers and other employees of the Bank.

According to 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 any form and manifestations is a principled position of OTP Group and the Bank, including, which every employee must adhere to, that is, not have a risk appetite for corruption risks, thereby practicing "zero tolerance" to such offenses.

The Bank, in particular the Compliance Department, ensures the development and adoption of measures that are necessary and sufficient to prevent, detect and combat corruption in its activities.

The manager, management bodies, and officials of all levels of the Bank undertake to create "zero tolerance" for corruption among the Bank's employees by personal example of ethical behavior, which is the basis of the Bank's business culture, daily business practices, and business reputation.

In order to identify facts and/or suspicions, the Bank has organized safe, confidential and accessible means of informing employees of the Bank about the facts/instigation/suspicion of corruption violations, such as offering (or suspecting) illegal benefits by a third party; extortion of providing (or suspecting) illegal benefits; incitement to commit corrupt actions; violation of Program requirements (or cases of incitement to such actions), 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 a corruption component.

Relevant information is posted on the Bank's internal portal and official website to inform the Bank's employees about violations of the Program, corruption or corruption-related offenses.
Regular assessment of corruption risks is carried out in the process of assessing compliance risks in the framework of outsourcing risk assessment and management.
Every year, all employees of the Bank undergo an electronic training course on compliance with the requirements of the Anti-Corruption Program with mandatory knowledge testing.

18. SOCIAL RESPONSIBILITY

Most of the Bank's corporate social responsibility activities in 2023 were related to helping the country during a full-scale war: internally displaced persons, children, healthcare institutions, and Ukrainians affected by the consequences of the war.
Among the most significant areas are the following:

Activities under OTP Bank Helps Ukraine Project

In 2023, the charity project OTP Bank Helps Ukraine continued its work, which was established in 2022 and aims to raise funds for the country's urgent needs during martial law. The project has implemented the following initiatives:

- special electric beds were transferred to Sumy Oblast Clinical Hospital and the University Clinic of Bogomolets National Medical University in Kyiv;
- help was provided to orphans and children deprived of parental care from Toretsk (Donetsk Oblast), who temporarily found shelter in Khmelnytskyi Oblast Social Hostel;
- project was implemented to help the Center for Social Support of Children and Families in Vorzel (Kyiv Oblast);
- shoes were transferred to Kremenchuk Oblast Specialized Infant Orphanage (Poltava Oblast);
- computers were provided for the Technical Service of the Main Department of the State Emergency Service in Zaporizhzhia Oblast;
- help was sent to Nizhyn Boarding School (Chernihiv Oblast);
- maxillofacial surgery room was equipped in Kropyvnytskyi;
- ultrasound machine was purchased for Ternopil Oblast Center for Rehabilitation and Child Development;
- modular house in Horenka Village (Kyiv Oblast) was equipped for a family who lost their home;
- help was provided for residents of Kherson Oblast affected by the explosion of the Hydroelectric Power Plant;
- ceiling lifts for children with special needs were purchased for Nizhyn Boarding School (Chernihiv Oblast);
- hearing screening device was purchased for a Neonatal Center of Mykolaiv Oblast Children's Clinical Hospital;
- funds were collected and transferred for repairs and for new equipment to Consultative and Diagnostic Polyclinic of the National specialized children’s hospital «Ohmatdyt» of Ministry of Health of Ukraine (Kyiv);
- technical equipment was purchased for a Specialized Infant Orphanage in Bila Tserkva (Kyiv Oblast);
- Ukrainian books for orphaned children abroad were collected and handed over.

Help to Superhumans Center

OTP Bank has signed a charitable donation agreement for 2023-2024 with Superhumans Center, a non-profit project dedicated to prosthetics, complex reconstructive surgery, rehabilitation and psychological support for Ukrainians who were injured due to the war.

As part of OTP's cooperation, the Bank held two charity auctions dedicated to Independence Day and Christmas, and all funds raised from the sale of lots were transferred to Superhumans Center. In addition, the Bank made monthly transfers aimed at installing prosthetics for Ukrainians and creating a center for training prosthetics specialists. The total amount of assistance as of December 31, 2023 amounted to more than UAH 22 million.

Financial Literacy

- In May, OTP Bank joined the educational marathon "Financial Defense. Profession Banker", an all-Ukrainian project initiated by the National Bank of Ukraine. 92 events were held in kindergartens, schools, universities, centers for internally displaced persons, boarding schools.

- In June, OTP Bank employees held a number of festive events in Kharkiv, Dnipro, Rivne, Khmelnytskyi, and Kyiv, combined with financial literacy lessons for almost 100 children whose parents died during the defense of Ukraine.

- In November, OTP Bank joined the project of the National Bank of Ukraine to improve financial literacy and awareness of Ukrainian children "Savings Week". As part of the project, OTP Bank employees conducted 43 educational events for schoolchildren in different cities of Ukraine.

Environmental Protection

- In 2023, OTP Bank continued to implement a green project to collect used batteries in 20 Branches of its network. The project is being implemented jointly with the public organization "Batteries, give up", which sends batteries collected throughout Ukraine to a battery recycling plant. In total, 92 kg of batteries were collected and sent for recycling in 2023.

Healthcare

- The "Basic course in medical care" was mastered by 115 employees in Kyiv and 16 employees in Dnipro. The trainings were conducted by the Certified Company FAST First Aid and Special Training.

  In addition, OTP Bank joined the first large-scale Stop The Bleed Day, an all-Ukrainian online training, which was attended by about 100 international and Ukrainian companies. The event was timed to coincide with the day of stopping bleeding on May 25.

- In September, OTP Run team (34 employees) took part in Kyiv iNvincibility Marathon. The event organizers transferred 50% of the profit from offline distance registrations in Kyiv to UNITED24, a state fundraising platform founded by Ukrainian President Volodymyr Zelenskyy.

19. CORPORATE SOCIAL RESPONSIBILITY

Bonus Systems

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

The main financial assessment methods in the bank are regular bonuses and one-time bonuses for particularly important tasks.
Regular bonuses are distributed depending on the accrual parameters for:

- 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 – used for business divisions and help to establish the dependence of the bonus on the individual business result.

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

- participation in the Bank's projects;
- extra effort in exceeding the planned indicators, and so on.

Motivational Programs

In addition to the main bonus, OTP Bank employees have the opportunity to receive additional incentives, namely:

- OKR (Objectives and Key Results) is a non-financial assessment system that helps determine whether senior management has achieved a cross-functional/project goal in a quarter;
- award within the framework of the program "Recommend a friend!" for the successful recommendation of friends to open vacancies in the Bank;
- award for successful mentoring for a new colleague;
- valuable gifts for the Bank's anniversaries.

The contribution of each employee is not ignored and is necessarily rewarded.

Working Conditions

OTP Bank always supports its employees as much as possible and provides various options for improving working conditions, including:

- compensation for the cost of teaching English (up to 80%);
- discounts from partners (Sport Life, WOG, dentistry, etc.);
- 4 additional vacation days;
- corporate mobile communication;
- external and internal training.
-

Additionally, pilot projects were launched in 2023:

- "Medical patronage: autumn fortification" (01.09.2023 – 31.12.2023) - covering half of the bank's employees' expenses in pharmacies (up to UAH 1,000/month after tax).
-

In general, each employee of OTP Bank gets 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 take advantage of a discount on health insurance, etc.

Distance Learning

Distance learning plays an important role in the employee training process. The e-Learning distance learning platform and e-courses make learning interactive and fun. The internal database includes more than 100 e-courses and tests on processes and products. Employees of the Branches are constantly learning new products and processes in the format of video seminars. On a quarterly basis, OTP Bank managers are trained in comprehensive programs from representatives of business schools. In the current conditions, events are held in the form of webinars aimed at maintaining the psychological health of employees.

External Training

OTP Bank constantly attracts the best trainers and speakers of the domestic market to train and deepen the skills of employees for 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 2023

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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 93 of the Bank's Annual Report 2023 and comprise the separate statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 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 indicate 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.

Building a better
working world

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 and input data.

Building a better working world

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss on loans and advances to customers	
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 considering 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 of the separate financial statements.	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 default, 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 checked completeness and accuracy of disclosures in the separate financial statements of the Bank regarding significant judgements and estimates of expected credit losses and credit risk.

Other information included in the Bank's Annual report and the Bank's Annual Information of the Issuer of Securities for 2023

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.

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 of the Bank 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 scepticism 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 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 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 three 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 18 April 2024 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 2023, the Bank had the following subsidiaries (all located in Ukraine): LLC "OTP Factoring Ukraine"
- As at 31 December 2023, 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.

- 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-2023-00002 dated 27 November 2023. The audit was conducted in the period from 27 November 2023 to 19 April 2024.

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

19 April 2024

Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, which is maintained by the Audit Public Oversight Body, registration number: 3516.

JOINT STOCK COMPANY OTP BANK

Separate Statement of Financial Position
for the Year Ended 31 December 2023
(In Ukrainian Hryvnias and in thousands)

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	4	10,827,171	4,749,260
Loans and advances to banks	5	21,491,993	21,720,592
Loans and advances to customers	6	24,861,899	29,892,900
Investments in securities	7	43,360,299	32,852,589
Derivative financial assets		-	3,246
Investments in subsidiaries, joint ventures and associates	8	139,143	139,143
Investment property		24,634	24,634
Current tax assets		40	5
Deferred tax assets	17	-	65,407
Intangible assets other than goodwill	9	486,795	362,306
Property plant and equipment	9	684,883	802,462
Other financial assets	10	114,674	330,426
Other nonfinancial assets	10	51,951	62,568
Total assets		**102,043,482**	**91,005,538**
LIABILITIES			
Due to other banks		15,211	231
Customer accounts	11	81,855,086	77,736,460
Derivative financial liabilities		22,758	9,233
Other borrowed funds		53	159
Current tax liabilities		2,683,009	119,500
Provisions:			
Provisions for loan commitments and financial guarantee contracts	24	246,958	301,643
Other financial liabilities	12	1,162,001	1,070,480
Other nonfinancial liabilities	12	162,478	137,164
Deferred tax liabilities	17	76,907	-
Total liabilities		**86,224,461**	**79,374,870**
EQUITY			
Statutory capital	22	6,186,023	6,186,023
Retained earnings		7,484,733	3,772,426
Share premium	22	405,075	405,075
Result from transactions with the shareholder	22	1,236,294	1,236,294
Other reserves		506,896	30,850
Total equity		**15,819,021**	**11,630,668**
Total equity and liabilities		**102,043,482**	**91,005,538**

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

Volodymyr Mudryi,
Chairman of the Management Board

19 April 2024

Natalia Diuba,
Chief Accountant

19 April 2024

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

The accompanying notes on pages from 8 to 93 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 2023
(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Interest Income:	13	12,121,526	8,787,828
Interest income calculated by using the effective interest rate	13	12,109,061	8,774,395
Other interest income	13	12,465	13,433
Interest expense	13	(3,480,867)	(1,981,446)
Net interest income (net interest expense)	**13**	**8,640,659**	**6,806,382**
Commission income	14	1,869,768	1,785,441
Commission expenses	14	(739,463)	(663,787)
Other income		91,475	128,973
Net gain (loss) from financial instruments at fair value through profit or loss		(102,552)	100,893
Net gain (loss) from operations with debt financial instruments at fair value through other comprehensive income		(24,491)	(7,847)
Net gain (loss) from trading in foreign currencies		378,182	713,690
Net gain (loss) from foreign exchange translation		206,885	70,226
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9	15	120,458	(5,658,273)
Other expense	16	(220,011)	(134,244)
Other gains (losses), including:		(129,729)	(100,474)
- Net loss on modification of financial assets		(129,729)	(100,254)
Employee benefits expense	16	(1,679,418)	(1,408,154)
Depreciation and amortisation expense	16	(341,058)	(341,116)
Other administrative and operational expenses	16	(647,867)	(565,299)
Profit (loss) before tax		**7,422,838**	**726,411**
Income tax expense (benefit)	17	(3,710,531)	(129,305)
Net profit (loss)		**3,712,307**	**597,106**
Earnings per share			
Weighted average number of outstanding ordinary shares		499,238	499,238
Basic and diluted earnings per share, UAH		7,436	1,196

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Volodymyr Mudryi,
Chairman of the Management Board

19 April 2024

Natalia Diuba,
Chief Accountant

19 April 2024

Україна * Акціонерне товариство "ОТП Банк" * м. Київ * Ідентифікаційний код 21685166

The accompanying notes on pages from 8 to 93 form an integral part of these separate financial statements.

JOINT STOCK COMPANY OTP BANK

Separate Statement of Comprehensive Income
for the Year Ended 31 December 2023
(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Profit (loss)		3,712,307	597,106
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		71	1,172
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		613,334	(41,983)
including:			
change in fair value of investments at fair value through other comprehensive income		202,824	(110,475)
change in allowance for expected credit losses on investments in debt instruments at fair value through other comprehensive income	24	410,510	68,492
Amount of accumulated gain / (loss), reclassified to profit or loss on disposal of investments at fair value through other comprehensive income		24,491	7,847
Income tax relating to items that may be reclassified subsequently to profit or loss	17	(161,850)	6,145
Total other comprehensive income that will be reclassified to profit or loss net of tax		**475,975**	**(27,991)**
Total other comprehensive income		**476,046**	**(26,819)**
Total comprehensive income		**4,188,353**	**570,287**

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

Volodymyr Mudryi,
Chairman of the Management Board

19 April 2024

Natalia Diuba,
Chief Accountant

19 April 2024

The accompanying notes on pages from 8 to 93 form an integral part of these separate financial statements.

JOINT STOCK COMPANY OTP BANK

Separate Statement of Changes in Equity
for the Year Ended 31 December 2023
(In Ukrainian Hryvnias and in thousands)

	Notes	Statutory capital	Share premium	Result from transactions with the shareholder	Other reserves: Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings	Total equity
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)
Total comprehensive income		**-**	**-**	**-**	**(26,819)**	**597,106**	**570,287**
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**
Net profit/(loss)		-	-	-	-	3,712,307	3,712,307
Other comprehensive income		-	-	-	476,046	-	476,046
Total comprehensive income		**-**	**-**	**-**	**476,046**	**3,712,307**	**4,188,353**
Increase/(decrease) in equity		**-**	**-**	**-**	**476,046**	**3,712,307**	**4,188,353**
31 December 2023		**6,186,023**	**405,075**	**1,236,294**	**506,896**	**7,484,733**	**15,819,021**

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

19 April 2024

Natalia Diuba,
Chief Accountant

19 April 2024

The accompanying notes on pages from 8 to 93 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 2023
(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Cash flows from operating activities			
Classes of cash receipts from operating activities			
Interest received		12,042,627	8,694,972
Commission income received		1,877,289	1,754,684
Net gain/(loss) from operations with financial instruments at fair value through profit or loss		(83,609)	113,546
Net gain/(loss) from operations with foreign currencies		378,182	713,690
Other cash receipts from operating activities (other income received)		91,947	140,785
Classes of cash payments from operating activities			
Interest paid		(3,473,023)	(1,994,258)
Commission expenses paid		(739,463)	(663,787)
Administrative expenses and other paid operating expenses, including:		(2,362,767)	(2,123,315)
Employee benefits expense		(1,517,150)	(1,437,346)
Other administrative and operational expenses		(625,606)	(551,505)
Other expense		(220,011)	(134,464)
Income taxes paid		(1,166,725)	(149,799)
Cash flows from (used in) operating activities before movements in operating assets and liabilities		**6,564,458**	**6,486,518**
Net (increase)/decrease in loans and receivables of banks		-	(379,871)
Net (increase)/decrease in loans and receivables		5,603,055	8,329,393
Net (increase)/decrease in other financial assets		214,559	(201,810)
Net (increase)/decrease in other nonfinancial assets		12,549	(3,696)
Net increase/(decrease) in due to other banks		15,211	(1,035)
Net increase/(decrease) in customer accounts		2,418,069	12,499,881
Net increase/(decrease) in other financial liabilities		(10,442)	(48,335)
Net increase/(decrease) in other nonfinancial liabilities		(12,535)	9,996
Net cash flows from (used in) operating activities		**14,804,924**	**26,691,041**
Cash flows from Investing activities			
Purchase of securities		(5,971,222,029)	(3,088,078,802)
Proceeds from sale and repayment of investments in securities		5,961,470,908	3,070,463,782
Purchase of property plant and equipment		(120,204)	(185,571)
Proceeds from sales of property plant and equipment		69,796	95,249
Purchase of intangible assets		(268,616)	(130,885)
Proceeds from sale of investment property		-	1,441
Net cash flows from (used in) investing activities		**(10,070,145)**	**(17,834,786)**

JOINT STOCK COMPANY OTP BANK

Separate Statement of Cash Flows
for the Year Ended 31 December 2023 (Continued)
(In Ukrainian Hryvnias and in thousands)

	Notes	2023	2022
Cash flows from financing activities			
Redemption of other borrowed funds		(579)	(17)
Payments on lease liabilities	12	(73,133)	(60,898)
Net cash flows from (used in) financing activities		**(73,712)**	**(60,915)**
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes		**4,661,067**	**8,795,340**
Effect of exchange rate changes on cash and cash equivalents		1,415,245	4,421,800
Effect of changes allowance on cash and cash equivalents	4	152,871	(126,713)
Net increase (decrease) in cash and cash equivalents		6,229,183	13,090,427
Cash and cash equivalents, at the beginning of the year	**4**	**26,089,981**	**12,999,554**
Cash and cash equivalents, at the end of the year	**4**	**32,319,164**	**26,089,981**

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

Volodymyr Mudryi,
Chairman of the Management Board

19 April 2024

Natalia Diuba,
Chief Accountant

19 April 2024

Україна * Акціонерне товариство "ОТП Банк" * м. Київ *
Ідентифікаційний код 21685166

The accompanying notes on pages from 8 to 93 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 2023 and 2022, 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 72 non-accounting operational divisions (2022: 73 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 2023, the number of the Bank's employees was 2,064 persons (2022: 2,213 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 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 2023 can only be analyzed through the lens of russia's military actions in Ukraine, which began on February 24, 2022. Many Ukrainian cities and towns have suffered significant destruction due to constant missile strikes, drone attacks and artillery fire, killing thousands and injuring thousands more. Active hostilities leads to significant destruction of infrastructure, the forced displacement of a large number of people, and the disruption of economic activity in Ukraine. According the National Bank of Ukraine’s estimates gross domestic product grew by just 5.7% for 2023 after contracting by 29.1% in 2022. Such growth occurred thanks to the renewal of household demand, a more stable supply of electricity in contrast to the winter of 2022-2023, an increase in government spending, as well as the financial and political support of friendly countries of Ukraine and international financial institutions. Security risks restrain investment activity. The economy is under pressure from the effect of restrictions on the import of Ukrainian food products to the EU countries neighboring Ukraine and difficulties in transporting exports considering russian attacks on the port infrastructure.

Since the beginning of the war, the Verkhovna Rada, the Government and the National Bank of Ukraine (NBU) have introduced a set of temporary anti-crisis measures and launched an intensive campaign to establish cooperation with a number of international organizations and governments of other countries to obtain financial, military, political and informational support for Ukraine and strengthen financial sanctions and political isolation of russia and belarus.

Inflation in Ukraine in 2023 fell to 5.1% after a jump in 2022 to 26.6%. The recovery of business activity and the reduction of costs for the production of goods and services stabilized the price dynamics. In part, the tight monetary policy of the NBU influenced prices. Separately, it should be noted a positive impact on inflation of the moratorium on the increase of certain key tariffs for communal services, even despite the less favorable price situation in the world.

Taking into account the stabilization of the level of prices in Ukraine, the National Bank of Ukraine started a key policy rate easing cycle, which was at the level of 25% from the middle of 2022, but by the end of 2023 reached 15%.

In October 2023, the National Bank of Ukraine abandoned the policy of fixing the hryvnia against the US dollar in favor of more flexible currency pricing, marking the end of the rigid exchange rate policy implemented since the start of the full-scale invasion in February 2022. With the introduction of flexible hryvnia pricing, the hryvnia exchange rate strengthened to 36 UAH for 1 USD within weeks, but still weakened to 38.5 UAH for 1 USD at the end of the year under the influence of the widening trade deficit factor. The NBU's gold and currency reserves increased by $8.6 billion US dollars up to 38.5 billion US dollars over the year thanks to the financial assistance of the partner countries of Ukraine, as well as a result of the successfully implemented structural beacons of the memorandum with the IMF on the part of Ukraine.

A key risk to macro-financial stability is Russia's ongoing full-scale invasion into the territory of sovereign Ukraine. The consequences of war change every day, and their long-term impact is impossible to determine. The further impact on the Ukrainian economy depends on how the full-scale war will end, on the successful implementation of new reforms by the Ukrainian government, the country's recovery and transformation strategy with the aim of gaining EU membership, as well as cooperation with international funds, support of our country from Western countries and partners.

2. Operating environment (continued)

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

3. Material accounting policy information

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 19 April 2024. The consolidated financial statements of JSC OTP Bank prepared under IFRS are available for public use at the Bank's official website, and may be obtained at the following address: 43 Zhylianska Str., Kyiv, Ukraine.

Going concern. These separate financial statements have been prepared based on the assumption 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 financial statements, considering the impact of military actions on the Ukraine's territories (Note 2) on its financial condition and future financial performance. In 2023 the war lapsed into its second year, but was much less dynamic and more static from point of view of change of front line with strategic initiative continuously switching between parties. As the war becomes increasingly the war of economic resilience and its agility, the focus of both fiscal and monetary policy of Ukrainian authorities during the last year has shifted to return back to normal policies.

During 2023 the Bank has continued its operations under the Recovery Plan and focused it operations on safeguarding the Bank’s assets, maintaining adequate capital and liquidity position, though during the year capital, liquidity, profitability and credit quality indicators were out of activation triggers of the plan. The Bank’s proactive approach toward offering client protection programs for its clients and timely recognition of expected credit losses, allowed the Bank to end the year with minimal additional charges to expected credit losses, as the quality of new disbursements was very good, recovery of forborne exposures was above expectations and migrations to non-performing exposures were minimal. First sign of broadband economic recovery coming to spot back in 2023 got traction in 2024 contributing to increase of net fee and commission income which naturally offset fall of net trading margins as market volatility got subdued. Cost base of operations has been adjusted to ‘new normal’. Collectively, these factors contributed to significant positive profit before tax result during the whole

3. Material accounting policy information (continued)

year 2023, which even considering normalization profit after tax due to one-time "windfall" bank tax adjustment by end of 2023, further strengthened the Bank's capital position.

Capital adequacy ratio has been tested by the National Bank of Ukraine within asset quality review as of 1 April 2023 and subsequent resilience assessment. At the result of this exercise, no capital requirement has been identified by the regulator and the Bank has scored among the leaders in terms of prudential capital adequacy ratio, which as expected should allow the Bank to meet new EU compliant capital definition requirements as well as certain capital buffers, in case the NBU decides on the latter during 2024. Prudential liquidity ratios, like LCR and NSFR, are about 2 times above the regulatory limits and in any case are foreseen to remain well above minimal requirements for year 2024 and year 2025 based of the forecast financial indicators developed by the Bank for that period.

From point of view of business continuity, the Bank remained committed to carrying out its operational resilience program.

The actual losses of the Bank's property for 2023 and 2022 (damage to real estate, office and other equipment) amounted to UAH 4,785 thousand and UAH 2,475 thousand, respectively.

Management of the Bank has prepared budget for 2024 under the assumption of protracted war with relatively fixed frontline during the year. From point of view of economy, revised upward GDP dynamics for 2023 will moderate, but remain solid in 2024, driven by continued rebound of consumption and pick up in investments. Strong disinflationary trend of 2023 will be preserved and consumer price index will itch a bit higher because of expected less favorable weather conditions impacting supply and price of food commodities at local market, imported inflation from switch to guided floating exchange rate regime by National Bank of Ukraine and lower base effect by year end. In response to that the National Bank of Ukraine is expected to keep its key policy rate relatively flat during 2024 maintaining high attractiveness of investments into local currency assets. Record high foreign currency reserve of the National Bank allow it to manage volatility magnitude of floating exchange rate within the trend defined by the market. Given negative trade balance of Ukraine, Ukrainian hryvnia has light devaluation tendency during the coming year.

The Bank foresees halt to loan portfolio downward trend of first 2 years of the war and moderate growth on loan portfolio in both corporate and retail segments in line with prevailing market dynamics. Risk profile of the assets of the Bank will not change significantly as significant share of assets will be still concentrated on the exposures to the National Bank of Ukraine and debt instruments of Ukrainian government fuelled by continued accumulation of clients' funding during 2024.

Revenue pool of the Bank will remain literally flat during in 2024, with still dominant share of income being generated by net interest income, that well supported by continued recovery of fee and commission income compensating for falling values of trading result due to decrease of market volatility indicators. Cost base will be adjusted upward on account of market trend of growing nominal wages of personnel and addition pool of expenses on digitalization of business model of the Bank. Nevertheless, cost to income indicators will remain very competitive. It is expected that there will not be material releases of risk costs due to migration within existing portfolio and there will be net charge to loan loss provisions because of net increase of loan portfolio during the year. The Bank is expected

3. Material accounting policy information (continued)

to deliver profit after tax for 2024. Management and shareholder are intending to support further development of the Bank's operations in Ukraine.

However, there is a 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 realize 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 of 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 2023, but they have had no significant effect on the Bank:
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 – Disclosure of Accounting Policies and IAS 8 «Accounting Policies, Changes in Accounting Estimates and Errors»- published in February 2021 and applicable for the reporting periods beginning on 1 January 2023 or later. Amendments to IAS 1 have been applied to these separate financial statements to disclose only material information about accounting policies;
- Amendments to IAS 12 "Income Taxes" Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which were issued in May 2021 and applicable for the reporting periods beginning 1 January 2023 or later;
- Amendments to IFRS 17 "Insurance Contracts", published in December 2021 and applicable for the reporting periods beginning on 1 January 2023.

IFRS 17 is a new comprehensive standard for insurance contracts that addresses recognition and measurement, presentation and disclosure. IFRS 17 replaced IFRS 4 "Insurance Contracts" and applies to all types of insurance contracts (for example, life and non-life insurance, direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Apart from the exceptions listed below, the Bank has not identified any contracts that result in the transfer of significant insurance risk and therefore concluded that IFRS 17 has no impact on the financial statements for the year ended 31 December 2023.

IFRS 17 excludes from the scope of application credit card contracts (and similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract, if and only if the business entity does not take into account the assessment of insurance risk, associated with a specific customer, when setting the price of the contract with that customer. The Bank determined that the insurance risk associated with an individual customer was not assessed when pricing credit card contracts, as these products are offered at the same price to all applicants and are therefore exempt from IFRS 17. The Bank chose not to apply IFRS 17 as permitted for financial guarantee contracts because the Bank did not explicitly state that it considers such contracts to be insurance contracts. The Bank chose to apply IFRS 7 «Financial Instruments: Disclosures» and IFRS 9 "Financial Instruments" to financial guarantee contracts. The Bank does not apply IFRS 17 "Insurance Contracts" for contracts of

3. Material accounting policy information (continued)

non-financial guarantees, as it has a contractual right to reimbursement by the client of the amounts paid by the Bank (right of recourse) and assesses the insurance risk as insignificant for such contracts.

In June 2023, the International Accounting Standards Board (IASB) issued International Tax Reform—Pillar Two Model Rules (amendments to IAS 12 Income Taxes) which are applicable from the date of their publication. These changes determine the features of accounting and disclosure of information about income taxes arising from the implementation of standard rules published by the Organization for Economic Cooperation and Development. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules. It also describes requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

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.

Fee and commission income/expense. Fee and commission income and expense include fees, other than those that are an integral part of effective interest rate. The fees, included in the articles «Fee and commission income and expense» of the Bank’s statement of profit or loss. 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 fair value through profit or loss (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.

Financial lease – the Bank as a lessor. When the Bank acts as a lessor under a lease agreement, under which all risks and rewards of ownership of an asset are transferred to the lessee, such asset is classified as a finance lease and receivables equal to the value of the net investment in the lease, and is presented as loans to customers.

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.

3. Material accounting policy information (continued)

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.

The model for estimating expected credit losses (ECLs) is described in Note 24.

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:

- 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.

3. Material accounting policy information (continued)

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.

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.
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.

3. Material accounting policy information (continued)

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

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.

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. Material accounting policy information (continued)

For financial assets modified as part of the Bank’s forbearance policy, where modification did not result in derecognition, the estimate of probability of default (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.

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.

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

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. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are in scope of IFRS 9 and effectively are a form of a contingent loan commitment. Performance guarantees liabilities are measured under IFRS 9 similarly to loan commitments.

3. Material accounting policy information (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.

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.

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

***Deferred and current income tax*.**

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the related assets are realized or the related liabilities are settled.

Deferred and current 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.

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.

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

(In Ukrainian Hryvnias and in thousands)

3. Material accounting policy information (continued)

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	5%-6,67%
Vehicles	16,67%
Furniture and equipment	5,56%-100%%
Other property and equipment	6.20%-100%
Intangible assets	20 %, якщо інше не визначено договором

Right of use assets are amortized over the term of the respective leases.

Financial lease – the Bank as a lessee. The Bank applies the short-term lease recognition exemption to short-term leases (that is, leases with a lease term of no more than 12 months from the commencement date and that do not contain a purchase option). The Bank also applies an exemption from recognition to leases where the underlying asset has an equivalent value of less than €5,000. Lease payments for short-term leases and leases of low-cost assets are recognized as lease expenses on a straight-line basis over the lease term.

Share capital and share premium. Contributions to share capital recognized at initial cost. Share premium is the difference between paid amount and notional value of issued shares. Gains and losses from own shares included in share premium. Gains or loss on transactions with a shareholder recogised within the equity as "results on transactions with a shareholder".

Rates of exchange. The official exchange rates as at 31 December 2023 and 2022 used by the Bank in the preparation of the separate financial statements were as follows:

	31 December 2023	**31 December 2022**
UAH/USD 1	37.9824	36.5686
UAH/EUR 1	42.2079	38.9510

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:

Standards/Interpretations	**Effective for the annual reporting periods beginning on or after:**
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 Current or Noncurrent and Non-current Liabilities with Covenants -	1 January 2024
Amendments to IAS 7 «Statement of Cash Flows» and IFRS 7 «Financial Instruments: Disclosures» - Disclosures: Supplier Finance Arrangement	1 January 2024
Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" - Lack of exchangeability	1 January 2025

3. Material accounting policy information (continued)

The new itandards 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 (see Notes 6, 7, 12, 21 and 24).

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 (solely payments of principle and interest) 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. Material accounting policy information (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 expected credit 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 increase in the provision for such assets by UAH 19,450 thousand (2022: UAH 28,671 thousand) / decrease in the provision by UAH 39,530 thousand (2022: by UAH 28,366 thousand).

3. Material accounting policy information (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 500,184 thousand (2022: UAH 916,533 thousand) / decrease in the provision by UAH 504,978 thousand (2022: decrease / increase by UAH 1,142,152 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 2023, 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 is based on market factors, but with a significant weighting of adjustments to them, assessed based on the professional judgement of valuation experts. 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 provisions for expected credit losses 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).

3. Material accounting policy information (continued)

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

***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 2023	31 December 2022
Balances with the National Bank of Ukraine	9,995,772	3,806,568
Cash	831,399	942,692
Total cash and cash equivalents	**10,827,171**	**4,749,260**

The National Bank of Ukraine has established a standard for the mandatory reserve of funds on a correspondent account at the National Bank of Ukraine, which depends on the balance of due to customers. During 2023 and 2022, the Bank complied with the requirements of the mandatory provisioning standard established by the National Bank of Ukraine.

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

	31 December 2023	31 December 2022
Cash and cash equivalents for the purposes of the Statement of Financial Position	10,827,171	4,749,260
Loans and advances to banks (Note 5), excluding restricted account balances	21,532,123	21,533,722
Allowance for expected credit losses	(40,130)	(193,001)
Total cash and cash equivalents	**32,319,164**	**26,089,981**

As of December 31, 2023, the Bank had balances on correspondent accounts in banks in Russian rubles in the amount of UAH 324,533 thousand (2022: UAH 390,761 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. As of December 31, 2023, the Bank recognised 100% allowance for expected credit losses on such balances (2022: allowance for expected credit losses in the amount of UAH 10,891 thousand).

5. Loans and advances to banks

Loans and advances to banks comprised:

	31 December 2023	31 December 2022
Correspondent accounts with banks	20,411,605	21,913,593
Loans to banks	1,445,051	-
Allowance for expected credit losses	(364,663)	(193,001)
Total loans and advances to banks	**21,491,993**	**21,720,592**

As at 31 December 2023 and 2022, in loans and advances to banks there was included accrued interest in the amount of UAH 53,324 thousand and UAH 9,084 thousand, respectively.

As at 31 December 2023, due from two banks for the total amount of UAH 18,995,149 thousand individually exceeded 10% of the Bank’s equity. 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.

(In Ukrainian Hryvnias and in thousands)

5. Loans and advances to banks (continued)

As at 31 December 2023 and 2022, the maximum credit risk exposure on loans and advances to banks amounted to UAH 21,491,993 thousand and UAH 21,720,592 thousand, respectively.

6. Loans and advances to customers

Loans and advances to customers comprised:

	31 December 2023	31 December 2022
Loans to legal entities and individual entrepreneurs	26,247,581	31,268,017
Consumer loans to individuals	5,033,096	6,896,626
Mortgage loans to individuals	358,453	565,050
Finance leases receivables	232,435	265,556
Loans under repo transactions	1,065,269	-
Other loans to individuals	2,215	3,253
Total loans and advances to customers before allowance for expected credit losses	**32,939,049**	**38,998,502**
Less: Allowance for expected credit losses	(8,077,150)	(9,105,602)
Total loans and advances to customers	**24,861,899**	**29,892,900**

As at 31 December 2023, the Bank received pledged securities with fair value of UAH 1,426,011 thousand that were used as a collateral under repo agreements. As at 31 December 2022, the Bank had no pledged securities that were used as a collateral under repo agreements.

As at 31 December 2023 and 2022, in loans and advances to customers there was included interest accrued in the amount of UAH 1,272,875 thousand and UAH 1,129,405 thousand, respectively.

Movements in allowance for expected credit losses and gross carrying value 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.

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

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.

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 2023	**31 December 2022**
Guarantees	571,551	335,376
Secured loans:	**12,295,148**	**17,217,917**
Loans secured by other real estate	5,400,513	7,590,648
Loans secured by equipment, inventory, and rights thereon	4,778,168	8,089,159
Loans secured by residential properties	354,627	756,733
Loans secured by cash or guarantee deposits with the Bank	753,088	781,377
Loans secured by securities	1,008,752	-
Unsecured and uncollateralized loans	**20,072,350**	**21,445,209**
Total loans and advances to customers before allowance for expected credit losses	**32,939,049**	**38,998,502**
Less: Allowance for expected credit losses	(8,077,150)	(9,105,602)
Total loans and advances to customers	**24,861,899**	**29,892,900**

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 2023	**31 December 2022**
Guarantees	8,011	-
Secured loans:	**583,469**	**2,372,051**
Loans secured by other real estate	350,774	1,312,210
Loans secured by residential properties	66,805	346,591
Loans secured by equipment, inventory, and rights thereon	153,525	697,246
Loans secured by cash or guarantee deposits with the Bank	12,365	16,004
Unsecured and uncollateralized loans	**6,568,723**	**4,431,813**
Total loans and advances to customers before allowance for expected credit losses	**7,160,203**	**6,803,864**
Less: Allowance for expected credit losses	(6,328,843)	(5,779,718)
Total loans and advances to customers	**831,360**	**1,024,146**

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

As at 31 December 2023 and 2022, 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).

As at 31 December 2023, the Bank did not grant loans and advances to groups of customers which individually exceeded 10% of the Bank's equity.

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 2023 and 2022, the maximum credit risk exposure on loans and advances to customers amounted to UAH 24,861,899 thousand and UAH 29,892,900 thousand, respectively. Credit quality of loans and advances to customers is disclosed in Note 24.

During the year ended 31 December 2023, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 931,322 thousand for UAH 78,073 thousand (2022: UAH 512,938 thousand for UAH 25,476 thousand). As a result, the differences between the value of sold portfolio and compensation received was recognised as write off against allowance recorded earlier in the amount of UAH 853,249 thousand (2022: UAH 487,462 thousand) (included in the item "write-off" in the movement of reserves in Note 24).

As at 31 December 2023 and 2022, loans and advances to customers included the finance leases receivables disclosed as follows:

	31 December 2023	
	Minimum lease payments	**Present value of minimum lease payments**
Receivables under finance leases		
Up to 1 year	113,717	102,009
From 1 to 2 years	94,514	88,877
From 2 to 3 years	43,765	41,549
From 3 to 4 years	-	-
From 4 to 5 years	-	-
Total investments in finance leases	**251,996**	**232,435**
Unearned finance income on finance leases	(19,561)	-
Allowance for expected credit losses on finance leases	(99,357)	(99,357)
Net investments in finance leases	**133,078**	**133,078**
Current finance leases receivable		58,404
Non-current finance leases receivable		74,674
Net investments in finance leases		**133,078**

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

	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**

(In Ukrainian Hryvnias and in thousands)

7. Investments in securities

Investments in securities comprised:

	31 December 2023	31 December 2022
- Investments at fair value through other comprehensive income	9,361,058	2,606,594
- Investments at amortized cost	33,999,241	30,245,995
Total investments in securities	**43,360,299**	**32,852,589**

Investments at fair value through other comprehensive income comprised:

	31 December 2023	31 December 2022
- Government debt securities	9,356,824	2,602,431
- Corporate and banking equity instruments (shares and others)	4,234	4,163
Total investments at fair value through other comprehensive income	**9,361,058**	**2,606,594**

As at 31 December 2023 and 2022, in investments at fair value through other comprehensive income there was included accrued interest in the amount of UAH 334,447 thousand and UAH 39,832 thousand, respectively.

Investments at amortized cost comprised:

	31 December 2023	31 December 2022
Debt securities		
- Government securities	33,990,288	30,216,427
- Corporate securities	31,345	30,937
Investments at amortized cost	**34,021,633**	**30,247,364**
Allowance for expected credit losses	(22,392)	(1,369)
Total investments at amortized cost	**33,999,241**	**30,245,995**

As at 31 December 2023 and 2022, in investments at amortized cost there was included accrued interest in the amount of UAH 268,171 thousand and UAH 36,709 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 2023 and 2022, 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 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**
Additions and internal Transfers	107,345	161,188	83	268,616
Disposals	-	(952)	-	(952)
31 December 2023	**448,550**	**751,562**	**115**	**1,200,227**
Accumulated depreciation and amortization				
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**
Charges for the year	36,562	107,550	15	144,127
Eliminated on disposals	-	(952)	-	(952)
31 December 2023	**295,595**	**417,809**	**28**	**713,432**
Net carrying value				
31 December 2023	**152,955**	**333,753**	**87**	**486,795**
31 December 2022	**82,172**	**280,115**	**19**	**362,306**

(In Ukrainian Hryvnias and in thousands)

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

Fixed assets and right-of-use 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 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**
Additions and internal Transfers	-	69,940	5,985	2,776	1,679	82,646	163,026
Disposals	-	(33,630)	(67,520)	-	(18,006)	(82,858)	(202,014)
Changes from reassessment and modification contracts	-	-	-	-	-	487	487
31 December 2023	**130,859**	**753,326**	**93,253**	**35,419**	**24,368**	**601,864**	**1,639,089**
Accumulated depreciation and amortization							
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**
Charges for the year	2,762	78,141	14,067	4,373	-	97,589	196,932
Eliminated on disposals	-	(31,990)	(67,520)	-	-	(82,858)	(182,368)
Changes from reassessment and modification contracts	-	-	-	-	-	64,514	64,514
31 December 2023	**37,413**	**455,510**	**72,970**	**27,580**	**-**	**360,733**	**954,206**
Net carrying value							
31 December 2023	**93,446**	**297,816**	**20,283**	**7,839**	**24,368**	**241,131**	**684,883**
31 December 2022	**96,208**	**307,657**	**28,365**	**9,436**	**40,695**	**320,101**	**802,462**

(In Ukrainian Hryvnias and in thousands)

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

As at 31 December 2023 and 2022, in property and equipment and intangible assets there were included fully depreciated property and equipment and amortized intangible assets with the cost of UAH 456,331 thousand and UAH 494,277 thousand, respectively.

Right-of-use assets

During 2023 and 2022, right-of-use assets had the following impact on the Bank's financial result:

	2023	2022
Amounts recognized in profit or loss		
Depreciation of right-of-use assets	(97,588)	(129,327)
Operating expense on leases	(5,720)	(8,160)
Interest expense on lease liabilities	(61,079)	(61,437)
Gain on subleases of right-of-use assets	356	419
Total effect on financial performance	**(164,031)**	**(198,505)**

As at 31 December 2023 and 2022 right-of-use assets included right-of-use on buildings, the average lease period of right-of-use assets on the building was 38 months and 35 months, respectively.

As at 31 December 2023 and 2022, 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 2023	31 December 2022
Other financial assets		
Accounts receivable and settlement/transit accounts	104,223	320,360
Income accrued	30,863	31,335
Other financial assets before allowance for expected credit losses	**135,086**	**351,695**
Less: Allowance for expected credit losses	(20,412)	(21,269)
Total other financial assets	**114,674**	**330,426**

(In Ukrainian Hryvnias and in thousands)

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

Other non-financial assets comprised:

	31 December 2023	31 December 2022
Other non-financial assets		
Prepaid expenses	23,104	20,710
Inventories	17,951	17,063
Prepayments for property and equipment and intangible assets	12,933	23,982
Properties repossessed by the Bank as a collateral holder	3,666	4,442
Taxes recoverable and prepaid, other than income taxes	849	484
Other advances and prepayments	24	71
Other non-financial assets before provision for impairment	**58,527**	**66,752**
Less: Provision for impairment	(6,576)	(4,184)
Total other non-financial assets	**51,951**	**62,568**

11. Customer accounts

Customer accounts comprised:

	31 December 2023	31 December 2022
Current accounts and deposits repayable on demand	66,722,799	69,623,921
Term deposits	15,132,287	8,112,539
Total customer accounts	**81,855,086**	**77,736,460**

As at 31 December 2023 and 2022, in customer accounts there was included interest accrued in the amount of UAH 85,067 thousand and UAH 59,150 thousand, respectively.

As at 31 December 2023 and 2022, customer accounts amounting to UAH 8,379,760 thousand (10.2%) and UAH 7,957,402 thousand (10.2%) were due to twelve customers and eleven customers, respectively, which represents a significant concentration.

As at 31 December 2023 and 2022, customer accounts amounting to UAH 1,339,172 thousand and UAH 1,047,316 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 2023	31 December 2022
Other financial liabilities		
Lease liabilities	379,740	442,431
Accruals for unused vacations and bonuses	478,699	324,966
Transit and settlement accounts	252,312	261,780
Payables to other counterparties	28,757	26,558
Payables on property and equipment	82	855
Other	22,411	13,890
Total other financial liabilities	**1,162,001**	**1,070,480**

Lease liabilities

Movements of lease liabilities for the years 2023 and 2022 were as follows:

	2023	2022
As at the beginning of the period	**442,431**	**450,168**
Increase in lease liabilities	83,281	121,150
Interest accrued	61,079	61,437
Repayment of interest of the lease liabilities	(59,939)	(58,804)
Modifications of lease liabilities	(65,372)	(92,041)
Repayment of lease liabilities	(73,133)	(60,898)
Effect of changes in foreign exchange rates	(8,607)	21,419
Total lease liabilities as at the end of the period	**379,740**	**442,431**

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 2023, foreign currency denominated lease liabilities amounted to USD 7,342 thousand, which is equivalent to UAH 278,867 thousand. As at 31 December 2022, foreign currency denominated lease liabilities amounted to USD 8,773 thousand, which is equivalent to UAH 320,816 thousand.

The maturity profile of lease liabilities was as follows:

	31 December 2023	31 December 2022
Up to one year	111,179	130,066
More than one year, but less than two years	72,130	79,900
More than two years, but less than three years	39,733	37,748
More than three years, but less than four years	21,303	26,898
More than four years, but less than five years	26,184	25,441
More than five years	109,211	142,378
Total lease liabilities	**379,740**	**442,431**

(In Ukrainian Hryvnias and in thousands)

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

Other non-financial liabilities comprised:

	31 December 2023	31 December 2022
Other non-financial liabilities		
Deferred income	89,405	80,083
Payables on contributions to Individual Guarantee Deposit Fund	49,919	49,386
Taxes payable, other than income taxes	22,851	7,685
Other	303	10
Total other non-financial liabilities	**162,478**	**137,164**

13. Net interest income (net interest expense)

Net interest income (net interest expense), comprised:

	2023	2022
Interest income		
Interest income calculated by using the effective interest rate:		
Interest income on loans to customers	4,741,753	5,781,346
Interest income on investments in securities at amortized cost	5,634,278	2,423,049
Interest income on investments in securities at fair value through other comprehensive income	1,184,027	484,447
Interest income on reverse repurchase agreements	50,800	37,823
Interest income on due from banks	498,203	47,730
Total interest income calculated by using the effective interest rate	**12,109,061**	**8,774,395**
Other interest income:		
Interest income on finance leases	12,465	13,433
Total interest income	**12,121,526**	**8,787,828**
Interest expense		
Interest expense calculated by using the effective interest rate:		
Interest expense on customer accounts	(3,407,031)	(1,856,026)
Interest expense on due to banks and other financial institutions	(12,708)	(38,750)
Interest expense on financial assets with a negative interest rate	(49)	(25,233)
Total interest expense calculated by using the effective interest rate	**(3,419,788)**	**(1,920,009)**
Other interest expense:		
Interest expense on lease liabilities	(61,079)	(61,437)
Total interest expense	**(3,480,867)**	**(1,981,446)**
Net interest income before allowance for expected credit losses on interest-bearing assets	**8,640,659**	**6,806,382**

(In Ukrainian Hryvnias and in thousands)

14. Fee and commission income and expense

Fee and commission income and expense comprised:

	2023	2022
Fee and commission income		
Settlement and cash operations with clients	1,018,881	977,474
Plastic cards operations	274,960	240,265
Foreign currency transactions	383,510	364,135
Guarantees issued	83,772	80,359
Agency fees from insurance companies	32,618	43,817
Other income	76,027	79,391
Total fee and commission income	**1,869,768**	**1,785,441**
Fee and commission expense		
Plastic cards operations	(595,239)	(537,799)
Settlements	(112,780)	(87,418)
Commission expenses for guaranteed credit obligations from international organizations and goverment institutions	(18,366)	(1,044)
Agent fees	(3,433)	(13,227)
Other expense	(9,645)	(24,299)
Total fee and commission expense	**(739,463)**	**(663,787)**

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

	Notes	2023	2022
Impairment gain/(loss) on loans and advances to banks	24	(154,299)	(126,713)
Impairment gain/(loss) on loans and advances to customers	24	651,739	(5,574,378)
Impairment gain/(loss) on investments in securities	24	(431,491)	21,426
Impairment gain/(loss) on other financial assets	24	(1,482)	13,489
Impairment gain/(loss) on issued financial guarantees and similar contractual obligations	24	55,991	7,903
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9		**120,458**	**(5,658,273)**

(In Ukrainian Hryvnias and in thousands)

16. Operational expenses

Operating expense comprised:

	2023	2022
Expenses for payments to employees		
Staff costs	1,445,253	1,188,705
Salary related taxes and charges	234,165	219,449
Total expenses for payments to employees	**1,679,418**	**1,408,154**
Depreciation and amortization	341,058	341,116
Other administrative and operating expense		
Property and equipment maintenance	206,382	195,213
Contributions to Individual Deposit Guarantee Fund	200,951	178,818
Expense on customer attractions	933	7,646
Advertising costs	24,540	10,193
Professional services	72,242	48,526
Communication services	109,267	76,396
Royalty costs	3,532	13,282
Operating leases	5,720	8,160
Security expenses	14,530	13,494
Taxes, other than income tax	9,770	13,571
Total other administrative and operating expense	**647,867**	**565,299**
Total operating expense	**2,668,343**	**2,314,569**

Other expense comprised:

	2023	2022
Expense of fines and penalties	62,291	2,174
Business expense	44,736	59,761
Charitable and sponsorship expense	28,648	15,540
Expense for supporting operations with plastic cards	26,055	16,017
Expense of lease liabilities	12,847	11,236
Court expense	9,893	3,111
Expense for collection	7,823	10,026
Travel expenses	5,040	1,893
Education expenses	4,095	4,096
Other expenses	18,583	10,390
Total other expense	**220,011**	**134,244**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense

Temporary differences as at 31 December 2023 were as follows:

	31 December 2022	Recognised in Profit&Loss	Recognised directly in equity	31 December 2023
Temporary differences:				
Allowance for expected credit losses on guarantees and other commitments	54,297	13,142	-	67,439
Property and equipment and intangible assets	16,062	4,777	-	20,839
Losses on sale of securities	-	486	-	486
Other temporary differences	1,202	1,131	-	2,333
Deferred income tax assets	**71,561**	**19,536**	**-**	**91,097**
Revaluation of securities	(6,154)	-	(161,850)	(168,004)
Deferred tax liabilities	**(6,154)**	**-**	**(161,850)**	**(168,004)**
Net deferred income tax assets/(liabilities)	**65,407**	**19,536**	**(161,850)**	**(76,907)**

Temporary differences as at 31 December 2022 were as follows:

	31 December 2022	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**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense (continued)

The income tax rate applicable for the years ended 31 December 2023 and 2022 was 50% and 18%, respectively. Starting from January 1, 2024, the income tax rate is 25%, which is taken into account by the Bank when assessing the expected impact of the realization of temporary differences in the following reporting periods.

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2023 and 2022 was as follows:

	2023	2022
Profit before income tax	**7,422,838**	**726,411**
Tax at the statutory tax rate – 50% (2022: 18%)	3,711,419	130,754
Adjustments of accounting profit:		
Effect of change in tax rate	(39,184)	-
Adjustments of current income tax	4,783	(1,497)
Tax effect of other permanent differences	33,513	48
Income tax expense	**3,710,531**	**129,305**
Current income tax expense	3,730,067	119,720
Deferred income tax (benefit)/expense	(19,536)	9,585
Income tax expense	**3,710,531**	**129,305**
Deferred income tax assets/(liabilities), net		
At the beginning of the period	**65,407**	**68,847**
Deferred income tax benefit/(expense)	19,536	(9,585)
Deferred tax related to change in fair value of securities at fair value through other comprehensive income	(161,850)	6,145
At the end of the period	**(76,907)**	**65,407**

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

As at 31 December 2023 and 2022, 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;

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

(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;
(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 non-distrutable reserves. 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 2023 and 2022 reserve funds amounted to UAH 648,986 thousand and UAH 619,131 thousand, respectively.

As at 31 December 2023 and 2022, the share premium totaling to UAH 405,075 thousand represented an excess of contributions received over the nominal value of the shares issued.

In 2023 and 2022, 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 years 2023 and 2022 the Bank paid no dividends 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 2023 and 2022, the nominal or contractual amounts of contingent liabilities were as follows:

	31 December 2023	31 December 2022
Contingent liabilities and loan commitments		
Guarantees issued and similar commitments:	3,397,844	2,958,572
Financial guarantees issued	3,162,867	2,494,175
Avals	12,662	37,331
Import letters of credit	222,315	427,066
Undrawn loan commitments	6,127,857	4,097,126
Contingent liabilities and loan commitments before allowance for expected credit losses	**9,525,701**	**7,055,698**
Less: Allowance for expected credit losses	(244,800)	(297,368)
Total contingent liabilities and loan commitments	**9,280,901**	**6,758,330**
Non-financial guarantees (performance guarantees)	95,449	99,345
Less: Allowance for expected credit losses under non-financial guarantees	(2,158)	(4,275)
Total non-financial guarantees (performance guarantees)	**93,291**	**95,070**
Total	**9,374,192**	**6,853,400**

As at 31 December 2023 and 2022, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines amounted to UAH 9,280,901 thousand and UAH 6,758,330 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 2023 and 2022, 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 2023 and 2022 with its related parties:

	31 December 2023		**31 December 2022**	
	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 before allowance for expected credit losses:	11,907,093	21,856,656	18,315,305	21,913,593
- Parent (interest rates from 0% to 0.19%)	11,576,162	-	17,918,483	-
- Entities under common control (interest rates from 0% to 0.1%)	330,931	-	396,822	-
Allowance for expected credit losses on loans and advances to banks:	(348,613)	(364,663)	(168,569)	(193,001)
- Parent	(17,682)	-	(157,509)	-
- Entities under common control	(330,931)	-	(11,060)	-
Loans and advances to customers before allowance for expected credit losses:	683	32,939,049	1,559,383	38,998,502
- Entities under common control (interest rates from 12.22% to 18% in UAH)	-	-	1,558,340	-
- Key management personnel	683	-	1,043	-
Allowance for expected credit losses on loans and advances to customers:	(18)	(8,077,150)	(36,524)	(9,105,602)
- Entities under common control	-	-	(36,501)	-
- Key management personnel	(18)	-	(23)	-
Investment in subsidiary:	139,143	139,143	139,143	139,143
- Subsidiary	139,143	-	139,143	-
Other financial assets:	13	114,674	4,840	330,426
- Parent	7	-	4,835	-
- Entities under common control	6	-	5	-
Due to other banks:	15,211	15,211	231	231
- Parent	15,209	-	229	-
- Entities under common control	2	-	2	-
Customer accounts:	1,271,961	81,855,086	1,141,795	77,736,460
- Entities under common (interest rates 0% in USD, 0% in EURO and from 0% to 12% in UAH)	477,765	-	392,196	-
- Key management personnel	97,917	-	78,039	-
- Subsidiary (interest rates from 0% to 4,5% in UAH)	696,279	-	671,560	-
Other financial liabilities:	44,766	1,162,001	45,178	1,070,480
- Parent	5,084	-	16,526	-
- Key management personnel	39,682	-	28,652	-
Undrawn loan commitments:	1,872	6,127,857	1,445	4,097,126
- Key management personnel	1,872	-	1,445	-

(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 2023 and 2022 were the following amounts which arose due to the transactions with related parties:

	2023		**2022**	
	Related party transactions	**Total category as per separate financial statements caption**	**Related party transactions**	**Total category as per separate financial statements caption**
Interest income:	402,016	12,121,526	249,045	8,787,828
- Parent	298,612	-	12,930	-
- Entities under common control	103,334	-	235,910	-
- Key management personnel	70	-	205	-
Interest expense:	(32,717)	(3,480,867)	(52,051)	(1,981,446)
- Parent	(40)		(23,696)	
- Entities under common control	(26,795)	-	(17,502)	-
- Key management personnel	(2,881)	-	(976)	-
- Subsidiary	(3,001)	-	(9,877)	-
Fee and commission income:	2,219	1,869,768	2,407	1,785,441
- Parent	90	-	336	-
- Entities under common control	1,978	-	1,923	-
- Subsidiary	151	-	148	-
Fee and commission expense:	(763)	(739,463)	(543)	(663,787)
- Parent	(761)	-	(508)	-
- Entities under common control	(2)	-	(35)	-
Net gain/(loss) from foreign exchange translation:	1,102,379	206,885	3,498,058	70,226
- Parent	1,168,387	-	3,385,568	-
- Entities under common control	(66,008)	-	112,490	-
Net gain/(loss) from financial instruments at fair value through profit or loss:	(117,624)	(102,552)	142,066	100,893
- Parent	(117,624)	-	142,066	-
		-		-
Impairment gain/(loss) and reversal of impairment loss determined in accordance with IFRS9:	(127,460)	120,458	(137,587)	(5,658,273)
- Parent	148,958		(145,502)	
- Entities under common control	(276,423)	-	7,692	-
- Key management personnel	5	-	223	-
Other income:	749	91,475	2,233	128,973
- Entities under common control	432	-	1,885	-
- Subsidiary	317	-	348	-
Other administrative and operational expenses:	(65,665)	(647,867)	(45,925)	(565,299)
- Parent	(65,489)	-	(45,881)	-
- Entities under common control	-	-	-	-
- Subsidiary	(176)	-	(44)	-

(In Ukrainian Hryvnias and in thousands)

20. Related party transactions (continued)

During the years ended 31 December 2023 and 2022, remuneration to key management personnel comprised short-term benefits in the amount of UAH 116,178 thousand and UAH 83,048 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.

In determining the level of the fair value hierarchy of financial assets and financial liabilities, 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 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 2023	31 December 2022		
1) Derivative financial assets	-	3,246	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	774,731	2,517	Level 1	Quoted deal prices in an active market
3) Investments measured at fair value through other comprehensive income	4,234	4,163	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

(In Ukrainian Hryvnias and in thousands)

21. Fair value of financial instruments (continued)

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs
	31 December 2023	31 December 2022		
4) Investments measured at fair value through other comprehensive income	8,582,093	2,599,914	Level 3	Discounted cash flows. Future cash flows are estimated based on observable market data, as well as unobservable market data. Observable data include parameters of 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 (unobservable data is the calculation of these parameters and their direct application to the Bank's portfolio of securities depending on the maturity of the assets).
5) Derivative financial liabilities	22,758	9,233	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 2023, there were transfers between levels of fair value hierarchy of securities measured at fair value through other comprehensive income from the 3rd to the 1st level in the amount of UAH 234,763 thousand. Transferring between levels of the hierarchy occurred due to the availability of market quotations from the active market as of the end of 2023.

As at 31 December 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.

(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:

Investments measured at fair value through other comprehensive income	
As at 31 December 2022	**2,599,914**
Income/(expense) for the period recognized in profit or loss, including:	(24,491)
Net gain (loss) from transactions with debt financial instruments at fair value through other comprehensive income	
Income/(expense) for the period recognized in comprehensive income, total:	625,639
Including:	
- change in fair value	170,308
- change in allowance for expected credit losses	455,331
Purchases	7,956,456
Disposals or sales	(2,340,661)
Transfers from Level 3	(234,763)
As at 31 December 2023	**8,582,094**

Investments measured at fair value through other comprehensive income	
As at 31 December 2021	**4,649,902**
Income/(expense) for the period recognized in comprehensive income, total:	(27,621)
Including:	
- change in fair value	(113,468)
- change in allowance for expected credit losses	85,847
Purchases	52,880
Disposals or sales	(3,215,852)
Transfers to Level 3	740,953
Income/(expense) for the period recognized in profit or loss, including:	
Net gain/(loss) from foreign exchange translation	399,652
As at 31 December 2022	**2,599,914**

For the year ended 31 December 2023, the Bank recognized UAH 1,115,170 thousand of accrued interest income on investments at fair value through other comprehensive income of the 3rd level (2022: UAH 187,338 thousand) and received UAH 1,203,053 thousand of interest income income from such investments (2022: UAH 601,756 thousand). In addition, the Bank recognized UAH 455,331 thousand in provision for expected credit losses (2022: UAH 85,847 thousand). 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 2023		31 December 2022	
	Levels of hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	1	10,827,171	10,827,171	4,749,260	4,749,260
Loans and advances to banks	2	21,491,993	21,491,993	21,720,592	21,720,592
Loans and advances to customers	3	24,861,899	24,848,035	29,892,900	29,874,112
Other financial assets	3	114,674	114,674	330,426	330,426
Total financial assets		**57,295,737**	**57,281,873**	**56,693,178**	**56,674,390**
LIABILITIES					
Due to other banks	2	15,211	15,211	231	231
Customer accounts	3	81,855,086	81,871,177	77,736,460	77,743,343
Other borrowed funds	3	53	53	159	159
Provisions for loan commitments and financial guarantee contracts	3	246,958	246,958	301,643	301,643
Other financial liabilities	3	1,162,001	1,162,001	1,070,480	1,070,480
Total financial liabilities		**83,279,309**	**83,295,400**	**79,108,973**	**79,115,856**

For financial assets and financial liabilities with a maturity of up to three months, the fair value is assumed to be equal to the carrying value. This also applies to current and savings accounts with no set maturity date. The fair value of customer funds and loans and advances to customers was estimated using the discounted cash flow method appling current interest rates for new instruments with similar credit risk and remaining maturity.

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 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 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 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 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 (including annual adjustments):

Regulatory capital composition:

	31 December 2023	31 December 2022
Tier 1 capital	7,162,682	7,261,678
Additional capital	7,162,682	3,754,538
Deductions	(139,143)	(139,143)
Total regulatory capital	**14,186,221**	**10,877,073**

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 200,000,000.00 (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 to cover credit risk and partially - market risk (in terms of open currency position) and operational risk.

As at 31 December 2023 and 2022, 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 2023		
	Within one year	**More than one year**	**Total**
ASSETS			
Cash and cash equivalents	10,827,171	-	10,827,171
Loans and advances to banks	21,491,993	-	21,491,993
Loans and advances to customers	21,476,034	3,385,865	24,861,899
Investments in securities	37,373,873	5,986,426	43,360,299
Derivative financial assets	-	-	-
Investments in subsidiaries, joint ventures and associates	-	139,143	139,143
Investment property	-	24,634	24,634
Current tax assets	40	-	40
Deferred tax assets	-	-	-
Intangible assets other than goodwill	-	486,795	486,795
Property plant and equipment	-	684,883	684,883
Other financial assets	114,674	-	114,674
Other nonfinancial assets	51,951	-	51,951
Total assets	**91,335,736**	**10,707,746**	**102,043,482**
LIABILITIES			
Due to other banks	15,211	-	15,211
Customer accounts	26,664,647	55,190,439	81,855,086
Derivative financial liabilities	22,758	-	22,758
Other borrowed funds	7	46	53
Current tax liabilities	2,683,009	-	2,683,009
Provisions for loan commitments and financial guarantee contracts	246,958	-	246,958
Other financial liabilities	1,162,001	-	1,162,001
Other nonfinancial liabilities	162,478	-	162,478
Deferred tax liabilities	-	76,907	76,907
Total liabilities	**30,957,069**	**55,267,392**	**86,224,461**
Net amount	**60,378,667**	**(44,559,646)**	**15,819,021**

(In Ukrainian Hryvnias and in thousands)

23. Maturity analysis of assets and liabilities (continued)

	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 other 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**

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 (or do it timely) in accordance with contractual terms 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 commitments 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 derecognition. 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 2023, the Bank determined three main scenarios:

Baseline scenario (scenario 1)
- Gradual deflation without secondary effects;
- Interest rates will remain high;
- Slow economic growth;
- Real GDP changes for 2024 are estimated with the following trend:

1st quarter of 2024	2st quarter of 2024	3st quarter of 2024	4st quarter of 2024
4,6%	4,2%	3,3%	3,4%

Optimistic scenario (scenario 2)
- 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 2024 are estimated with the following trend:

1st quarter of 2024	2st quarter of 2024	3st quarter of 2024	4st quarter of 2024
4,8%	4,5%	4,4%	5,6%

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Stressful scenario (scenario 3)

- 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 2024 are estimated with the following trend**:**

1st quarter of 2024	2st quarter of 2024	3st quarter of 2024	4st quarter of 2024
3,6%	2,5%	1,0%	0,4%

The Bank applies probabilities to the forecast scenarios determined. As such, as at 31 December 2023 abovementioned scenarios were weighted with probabilities of 60% (Baseline scenario), 20% (Optimistic scenario) and 20%(Stressful scenario) respectively.

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%

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%

24. Risk management policies (continued)

As at 31 December 2022 abovementioned scenarios were weighted with probabilities of 60% (Baseline scenario), 20% (Optimistic scenario) and 20% (Stressful scenario) respectively.

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)
- Credit conversion factor (CCF).

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.

As at 31 December 2023, 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 the exposure to risk for customers without overdue payments of more than 30 days and 100% of the exposure to risk for customers with overdue payments of more than 30 days has been made;
2. Retail unsecured loans in Donetsk, Luhansk, Kherson, Zaporizhia regions with more than 90 days past due– applied 100% PD and applied 100% LGD;
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) (taking into account internal rating);
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.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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

As at 31 December 2023 and 2022, the majority (>95%) of bank loans and advances had an investment rating.

As at 31 December 2023 and 2022, lending obligations were Level 1 based on the classification applied by the Bank to financial assets above. 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.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

For contingent and loan commitments, the amounts in the table represent the amounts committed.

	As at 31 December 2023		
Loans and advances to banks	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**
LEVEL 1	21,304,375	221,350	330,931

	As at 31 December 2022
Loans and advances to banks	**Stage 1 12-months ECLs**
LEVEL 1	21,913,593

	As at 31 December 2023			
Loans and advances to legal entities	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit impaired financial instruments**
LEVEL 1	15,472,467	7,149,110	2,539,526	2,766
LEVEL 2	2,190	42,726	9,264	-
LEVEL 3	-	1,792	48,660	-
LEVEL 4	-	2,752	136,394	-
LEVEL 5	-	262	2,005,508	131,868
Total	**15,474,657**	**7,196,642**	**4,739,352**	**134,634**

	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 impaired 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**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

				As at 31 December 2023
Loans and advances to individuals	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit impaired financial instruments**
LEVEL 1	2,126,426	798,260	486,083	130,870
LEVEL 2	3,941	56,060	25,310	14,730
LEVEL 3	-	28,361	21,049	4,392
LEVEL 4	-	18,608	13,263	564
LEVEL 5	-	75,893	1,557,039	32,915
Total	**2,130,367**	**977,182**	**2,102,744**	**183,471**

				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 impaired 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 2023
Other financial assets	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**
LEVEL 1	125,209	-	-
LEVEL 2	-	-	-
LEVEL 3	-	89	-
LEVEL 4	-	234	-
LEVEL 5	-	-	9,554
Total	**125,209**	**323**	**9,554**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

			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**

		As at 31 December 2023
Investments at fair value through other comprehensive income	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**
LEVEL 1	9,105,041	256,017

		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 2023
Investments at amortized cost	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**
LEVEL 1	33,990,288	31,345

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

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 2023 and 2022 by classes of financial assets. Effect of foreign exchange rates fluctuations on the changes in carrying value and expected credit losses on financial instruments, that are covered by impairment requirements under IFRS 9, in the tables below are not presented in separate lines but included within the lines of respective changes.

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

As at 31 December 2023 and 2022, the total effect of foreign exchange rate fluctuations on changes in expected credit losses of financial instruments amounted to UAH 148,480 thousand (loss) and UAH 818,842 thousand (loss), respectively.

During the years ended 31 December 2023 and 2022, the total effect of foreign exchange rate fluctuations on changes in provisions for expected credit losses of financial guarantees and loan commitments amounted to UAH 3,687 thousand (loss) and UAH 10,863 thousand (loss), respectively.

During the years ended 31 December 2023 and 2022, the Bank received income from the return of previously written off loans and advances to customers, the amount to UAH 9,377 thousand and UAH 5,537 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. Transfer from Stages are presented for the annual period as a whole on a net basis (net). New loans are presented according to the stage as of the end of the reporting year.

Loans and advances to banks – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
31 December 2022	**21,913,593**	**-**	**-**	**21,913,593**
New loans or purchased loans	1,445,052	10,193	-	1,455,245
Transfer from Stage 1, 12-month ECLs	(1,325,386)	211,157	330,931	(783,298)
Transfer from Stage 2, Lifetime ECLs	(324,695)	-	-	(324,695)
Transfer from Stage 3, Lifetime ECLs	(396,822)		-	(396,822)
Loans derecognized during the reporting period	(7,367)	-	-	(7,367)
31 December 2023	**21,304,375**	**221,350**	**330,931**	**21,856,656**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to banks – change in expected credit losses by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2022	**193,001**	**-**	**-**	**193,001**
New loans or purchased loans	1,563	319	-	1,882
Transfer from Stage 1, 12-month ECLs	(149,550)	5,964	330,931	187,345
Transfer from Stage 2, Lifetime ECLs	(6,436)	-	-	(6,436)
Transfer from Stage 3, Lifetime ECLs	(11,060)	-	-	(11,060)
Loans derecognized during the reporting period	(69)	-	-	(69)
31 December 2023	**27,449**	**6,283**	**330,931**	**364,663**

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 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 2022	**15,421,359**	**12,006,794**	**3,982,192**	**123,228**	**31,533,573**
New loans or purchased loans	13,511,874	4,032,079	195,668	-	17,739,621
Transfer from Stage 1, 12-month ECLs	(537,421)	(394,058)	84,649	-	(846,830)
Transfer from Stage 2, Lifetime ECLs	230,891	(566,740)	745,417	-	409,568
Transfer from Stage 3, Lifetime ECLs	(90,375)	(854,959)	63,395	-	(881,939)
Loans derecognized during the reporting period	(13,061,671)	(7,026,474)	(128,984)	-	(20,217,129)
Loans sold and written off during the reporting period	-	-	(202,985)	-	(202,985)
Effect of other changes	-	-	-	11,406	11,406
31 December 2023	**15,474,657**	**7,196,642**	**4,739,352**	**134,634**	**27,545,285**

(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	-	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 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 2022	**2,584,684**	**2,181,801**	**2,476,439**	**222,005**	**7,464,929**
New loans or purchased loans	755,270	93,174	318,694	-	1,167,138
Transfer from Stage 1, 12-month ECLs	(115,736)	(99,105)	17,818	-	(197,023)
Transfer from Stage 2, Lifetime ECLs	23,600	(153,348)	285,865	-	156,117
Transfer from Stage 3, Lifetime ECLs	(33,532)	(305,632)	74,781	-	(264,383)
Loans derecognized during the reporting period	(1,083,920)	(739,709)	(116,747)	(31,907)	(1,972,283)
Loans sold and written off during the reporting period	-	-	(954,105)	-	(954,105)
Effect of other changes	-	-	-	(6,626)	(6,626)
31 December 2023	**2,130,366**	**977,181**	**2,102,745**	**183,472**	**5,393,764**

(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 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 2022	**361,245**	**2,140,235**	**3,340,683**	**59,197**	**5,901,360**
New loans or purchased loans	309,687	494,161	145,825	-	949,673
Transfer from Stage 1, 12-month ECLs	(17,336)	(56,952)	50,471	-	(23,817)
Transfer from Stage 2, Lifetime ECLs	4,080	(169,488)	528,321	-	362,913
Transfer from Stage 3, Lifetime ECLs	(2,117)	(182,519)	99,803	-	(84,833)
Loans derecognized during the reporting period	(305,949)	(1,188,120)	(74,857)	-	(1,568,926)
Loans sold and written off during the reporting period	-	-	(202,985)	-	(202,985)
Adjustment of interest income	-	-	280,741	-	280,741
Effect of changes in models or risk parameters, other changes	-	-	-	22,681	22,681
31 December 2023	**349,610**	**1,037,317**	**4,168,002**	**81,878**	**5,636,807**

(In Ukrainian Hryvnias and in thousands)

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 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 2022	**80,043**	**744,361**	**2,212,574**	**167,264**	**3,204,242**
New loans or purchased loans	24,572	28,024	245,221	-	297,817
Transfer from Stage 1, 12-month ECLs	(531)	(17,020)	14,835	-	(2,716)
Transfer from Stage 2, Lifetime ECLs	(700)	(27,039)	267,364	-	239,625
Transfer from Stage 3, Lifetime ECLs	(2,271)	(164,250)	(172,403)	-	(338,924)
Loans derecognized during the reporting period	(32,427)	(271,384)	(15,365)	(24,858)	(344,034)
Loans sold and written off during the reporting period	-	-	(954,105)	-	(954,105)
Adjustment of interest income	-	-	343,273	-	343,273
Effect of changes in models or risk parameters, other changes	-	-	-	(4,835)	(4,835)
31 December 2023	**68,686**	**292,692**	**1,941,394**	**137,571**	**2,440,343**

(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**

As at 31 December 2023, 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 9,105,041 thousand and as Stage 2 in the amount of UAH 256,017 thousand.

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.

As at 31 December 2023, 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 33,990,288 thousand and as Stage 2 in the amount of UAH 31,345 thousand.

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.

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 2022	**78**	**85,847**	**85,925**
New investments	483,076	-	483,076
Investments sold and written off during the reporting period	(78)	(73,068)	(73,146)
Effect of other changes	-	580	580
31 December 2023	**483,076**	**13,359**	**496,435**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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**

Change in expected credit losses on investments in securities at fair value through other comprehensive income that were purchased during 2023 and purchased in 2022 (during 2022 and purchased in 2021) that are outstanding and unsold as at 31 December 2023 year was UAH 410,510 thousand (31 December 2022: UAH 68,492 thousand).

As at 31 December 2023, expected credit losses on investments in securities at amortised cost were classified as Stage 1 in the amount of UAH 22,392 thousand.

As at 31 December 2022, expected credit losses on investments in securities at amortised cost were classified as Stage 1 in the amount of UAH 1,369 thousand.

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 2022	**339,125**	**526**	**12,044**	**351,695**
New assets	100,818	237	965	102,020
Transfer from Stage 1, 12-month ECLs	1,804	(104)	(297)	1,403
Transfer from Stage 2, Lifetime ECLs	101	8	372	481
Transfer from Stage 3, Lifetime ECLs	375	(162)	(483)	(270)
Assets derecognized during the reporting period	(317,015)	(181)	(3,047)	(320,243)
31 December 2023	**125,208**	**324**	**9,554**	**135,086**

(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 expected credit losses by Stages	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2022	**9,137**	**143**	**11,989**	**21,269**
New assets	2,690	64	965	3,719
Transfer from Stage 1, 12-month ECLs	213	(28)	(297)	(112)
Transfer from Stage 2, Lifetime ECLs	83	2	372	457
Transfer from Stage 3, Lifetime ECLs	369	(44)	(441)	(116)
Assets derecognized during the reporting period	(1,722)	(49)	(3,034)	(4,805)
31 December 2023	**10,770**	**88**	**9,554**	**20,412**

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)

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 2022	**1,939,171**	**554,954**	**50**	**2,494,175**
New guarantees	1,187,474	85,469	-	1,272,943
Transfer from Stage 1, 12-month ECLs	96,093	(226,423)	-	(130,330)
Transfer from Stage 2, Lifetime ECLs	371,002	45,533	-	416,535
Transfer from Stage 3, Lifetime ECLs	-	-	-	-
Guarantees derecognized during the reporting period	(689,718)	(200,688)	(50)	(890,456)
31 December 2023	**2,904,022**	**258,845**	**-**	**3,162,867**

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 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 2022	**45,482**	**81,872**	**25**	**127,379**
New guarantees	24,094	10,216	-	34,310
Transfer from Stage 1, 12-month ECLs	(1,897)	(33,404)	-	(35,301)
Transfer from Stage 2, Lifetime ECLs	7,546	1,863	-	9,409
Transfer from Stage 3, Lifetime ECLs	-	-	-	-
Guarantees derecognized during the reporting period	(16,156)	(29,608)	(25)	(45,789)
31 December 2023	**59,069**	**30,939**	**-**	**90,008**

(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**

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**	**Total**
31 December 2022	**320,377**	**106,689**	**427,066**
New letters of credit	67,533	39,172	106,705
Transfer from Stage 1, 12-month ECLs	-	8,921	8,921
Letters of credit derecognized during the reporting period	(320,377)	-	(320,377)
31 December 2023	**67,533**	**154,782**	**222,315**

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**	**Total**
31 December 2021	**408,883**	**-**	**408,883**
New letters of credit	215,253	106,689	321,942
Transfer from Stage 1, 12-month ECLs	(50,226)	-	(50,226)
Letters of credit derecognized during the reporting period	(253,533)	-	(253,533)
31 December 2022	**320,377**	**106,689**	**427,066**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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**	**Total**
31 December 2022	**7,504**	**15,740**	**23,244**
New letters of credit	1,373	4,682	6,055
Transfer from Stage 2, Lifetime ECLs	-	(1,921)	(1,921)
Letters of credit derecognized during the reporting period	(7,504)	-	(7,504)
31 December 2023	**1,373**	**18,501**	**19,874**

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**	**Total**
31 December 2021	**9,646**	**-**	**9,646**
New letters of credit	5,042	15,740	20,782
Transfer from Stage 1, 12-month ECLs	(1,203)	-	(1,203)
Letters of credit derecognized during the reporting period	(5,981)	-	(5,981)
31 December 2022	**7,504**	**15,740**	**23,244**

Avals – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECI**	**Stage 3 Lifetime ECLs**	**Total**
31 December 2022	**8,776**	**3,555**	**25,000**	**37,331**
New avals	12,662	-	-	12,662
Avals derecognized during the reporting period	(8,776)	(3,555)	(25,000)	(37,331)
31 December 2023	**12,662**	**-**	**-**	**12,662**

(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 2021	**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 2022	**8,776**	**3,555**	**25,000**	**37,331**

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 2022	**206**	**524**	**24,750**	**25,480**
New avals	258	-	-	258
Avals derecognized during the reporting period	(206)	(524)	(24,750)	(25,480)
31 December 2023	**258**	**-**	**-**	**258**

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)

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 2022	**3,687,304**	**399,398**	**10,424**	**4,097,126**
New undrawn loan commitments	919,446	57,505	3,484	980,435
Transfer from Stage 1, 12-month ECLs	1,817,114	4,071	(50)	1,821,135
Transfer from Stage 2, Lifetime ECLs	107,163	60,364	253	167,780
Transfer from Stage 3, Lifetime ECLs	(3,683)	(2,228)	(41)	(5,952)
Undrawn loan commitments derecognized during the reporting period	(791,727)	(135,645)	(5,295)	(932,667)
31 December 2023	**5,735,617**	**383,465**	**8,775**	**6,127,857**

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**

(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 2022	**55,654**	**59,944**	**5,725**	**121,323**
New undrawn loan commitments	13,875	5,898	1,717	21,490
Transfer from Stage 1, 12-month ECLs	27,445	(1,512)	(92)	25,841
Transfer from Stage 2, Lifetime ECLs	1,448	1,614	112	3,174
Transfer from Stage 3, Lifetime ECLs	(111)	(792)	(229)	(1,132)
Undrawn loan commitments derecognized during the reporting period	(12,267)	(20,843)	(2,926)	(36,036)
31 December 2023	**86,044**	**44,309**	**4,307**	**134,660**

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**

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 2023 and 2022:

	2023	**2022**
Amortized cost of financial assets before modification (Lifetime ECLs)	4,779,452	7,077,637
Net loss on modification of financial assets	(129,858)	(100,254)
Gross carrying value of modified financial assets, at the end of the reporting period, transferred to 12-month ECLs	276,327	308,678

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, 2023 and 2022, 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 2023 Total
FINANCIAL ASSETS				
Cash and cash equivalents	10,827,171	-	-	10,827,171
Loans and advances to banks	215,088	-	21,276,905	21,491,993
Loans and advances to customers	24,861,899	-	-	24,861,899
Investments in securities				
Investments at fair value through other comprehensive income	9,361,058	-	-	9,361,058
Investments at amortized cost	29,407,835	-	4,591,406	33,999,241
Derivative financial assets	-		-	-
Other financial assets	111,272	21	3,381	114,674
TOTAL FINANCIAL ASSETS	**74,784,323**	**21**	**25,871,692**	**100,656,036**
FINANCIAL LIABILITIES				
Due to other banks	-	2	15,209	15,211
Customer accounts	79,463,742	1,042,587	1,348,757	81,855,086
Derivative financial liabilities	-	-	22,758	22,758
Other borrowed funds	53			53
Other financial liabilities				
Lease liabilities	379,740	-	-	379,740
Other financial liabilities	778,559		3,702	782,261
TOTAL FINANCIAL LIABILITIES TOTAL FINANCIAL LIABILITIES	**80,622,094**	**1,042,589**	**1,390,426**	**83,055,109**
NET POSITION	**(5,837,771)**	**(1,042,568)**	**24,481,266**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	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 other 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**	

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 for next month. The Bank relies on the Parent Bank in case of outflow of customer accounts denominated in foreign currency (FCY).

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 interbank 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 2023 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and cash equivalents	10,827,171	-	-	-	-	10,827,171
Loans and advances to banks	21,149,903	342,090	-	-	-	21,491,993
Loans and advances to customers	8,770,553	5,943,046	6,762,435	2,782,152	603,713	24,861,899
Investments in securities						
Investments at fair value through other comprehensive income	47,639	180,773	3,146,220	5,986,426	-	9,361,058
Investments at amortized cost	27,782,078	3,510,321	2,706,842	-	-	33,999,241
Other financial assets	114,674	-	-	-	-	114,674
Total non-derivative financial assets	**68,692,018**	**9,976,230**	**12,615,497**	**8,768,578**	**603,713**	**100,656,036**
Derivative financial assets	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS	**68,692,018**	**9,976,230**	**12,615,497**	**8,768,578**	**603,713**	**100,656,036**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to other banks	15,211	-	-	-	-	15,211
Customer accounts	73,830,541	5,201,017	2,657,353	159,337	6,837	81,855,085
Other borrowed funds	1	1	5	46	-	53
Other financial liabilities						
Lease liabilities	23,735	15,461	71,983	159,351	109,210	379,740
Other financial liabilities	782,261	-	-	-	-	782,261
Loan commitments (off-balance):						
Financial guarantees issued and similar commitments	3,380,995	-	-	-	-	3,380,995
Undrawn loan commitments	5,993,197	-	-	-	-	5,993,197
Total non-derivative financial liabilities	**84,025,941**	**5,216,479**	**2,729,341**	**318,734**	**116,047**	**92,406,542**
Derivative financial liabilities	22,758	-	-	-	-	22,758
Amount due under the contract	5,814,298	-	-	-	-	5,814,298
The amount under the contract to be received	(5,791,540)	-	-	-	-	(5,791,540)
TOTAL FINANCIAL LIABILITIES	**84,048,699**	**5,216,479**	**2,729,341**	**318,734**	**116,047**	**92,429,300**
Liquidity gap	(15,356,681)	4,759,751	9,886,156	8,449,844	487,666	
Cumulative liquidity gap	(15,356,681)	(10,596,930)	(710,774)	7,739,070	8,226,736	

(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 other 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	2,877,598	-	-	-	-	2,877,598
Undrawn loan commitments	3,975,802	-	-	-	-	3,975,802
Total non-derivative financial liabilities	**79,695,948**	**2,739,393**	**2,819,556**	**255,343**	**150,490**	**85,660,730**
Derivative financial liabilities	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)
TOTAL FINANCIAL LIABILITIES	**79,705,181**	**2,739,393**	**2,819,556**	**255,343**	**150,490**	**85,669,963**
Liquidity gap	(10,848,208)	2,287,761	6,893,495	5,057,670	488,332	
Cumulative liquidity gap	(10,848,208)	(8,560,447)	(1,666,952)	3,390,718	3,879,050	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Liquidity gap, which arose as at 31 December 2023 and 2022 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 2023 and 2022, the stable part of customers’ accounts as at year end amounted to UAH 55,024,264 thousand and UAH 60,646,451 thousand, respectively.

Thus, as at 31 December 2023 and 2022 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 54,313,490 thousand and UAH 58,979,499 thousand, respectively.

The impact of the application of the behavioral principle is shown in the table below.

	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 2023 Total
Liquidity gap	(15,356,681)	4,759,751	9,886,156	8,449,844	487,666	
Cumulative liquidity gap	(15,356,681)	(10,596,930)	(710,774)	7,739,070	8,226,736	
Stable portfion of customer accounts	55,024,264	-	-	(55,024,264)	-	
Customer accounts adjusted	18,806,277	5,201,017	2,657,353	55,183,602	6,837	81,855,086
Liquidity gap adjusted	39,667,583	4,759,751	9,886,156	(46,574,420)	487,666	
Cumulative liquidity gap adjusted	39,667,583	44,427,334	54,313,490	7,739,070	8,226,736	

(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
Liquidity gap	(10,848,209)	2,287,762	6,893,495	5,057,670	488,332	
Cumulative liquidity gap	(10,848,209)	(8,560,447)	(1,666,952)	3,390,718	3,879,050	
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	49,798,243	2,287,761	6,893,495	(55,588,781)	488,332	
Cumulative liquidity gap adjusted	49,798,243	52,086,005	58,979,499	3,390,718	3,879,050	

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 2023 Total
FINANCIAL LIABILITIES						
Due to other banks	15,211	-	-	-	-	15,211
Customer accounts	73,863,912	5,300,255	2,699,140	170,917	6,841	82,041,065
Other borrowed funds	1	3	10	46	21	81
Other financial liabilities						
Lease liabilities	21,372	19,115	122,465	281,534	129,951	574,437
Other financial liabilities	782,261	-	-	-	-	782,261
Financial guarantees issued and similar commitments	3,380,995	-	-	-	-	3,380,995
Undrawn loan commitments	5,993,197	-	-	-	-	5,993,197
Total non-derivative financial liabilities	**84,056,949**	**5,319,373**	**2,821,615**	**452,497**	**136,813**	**92,787,247**
Forward contracts, net amount	22,758	-	-	-	-	22,758
Amount due under the contract	5,814,298	-	-	-	-	5,814,298
The amount under the contract to be received	(5,791,540)	-	-	-	-	(5,791,540)
Derivative financial liabilities	**22,758**	**-**	**-**	**-**	**-**	**22,758**
TOTAL FINANCIAL LIABILITIES	**84,079,707**	**5,319,373**	**2,821,615**	**452,497**	**136,813**	**92,810,005**

(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 12,992 thousand in 2023 and UAH 188,352 thousand in 2022.

	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 other 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	2,877,598	-	-	-	-	2,877,598
Undrawn loan commitments	3,975,802	-	-	-	-	3,975,802
Total non-derivative financial liabilities	**79,627,614**	**2,754,185**	**2,876,449**	**374,971**	**188,747**	**85,821,966**
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	**79,636,847**	**2,754,185**	**2,876,449**	**374,971**	**188,747**	**85,831,199**

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.

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.

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.

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 2023, 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 2023 and 2022 was as follows:

					31 December 2023, (%)
	UAH	**USD**	**EUR**	**Other currencies**	**Interest rate**
FINANCIAL ASSETS					
Loans and advances to banks	-	4.73	(0.28)	0.03	Fixed/variable
Loans and advances to customers	20.35	5.06	5.42	4.85	Fixed/variable
Investments in securities					
Investments at fair value through other comprehensive income	19.04	-	-	-	Fixed
Investments at amortized cost	16.06	5.06	-	-	Fixed
FINANCIAL LIABILITIES					
Due to other banks	-	-	-	-	Fixed
Other borrowed funds	13.50	-	-	-	Fixed
Customer accounts:					
Current accounts and deposits repayable on demand	5.93	0.01	-	-	Fixed/variable
Term deposits	11.43	0.62	0.59	0.01	Fixed
Lease liabilities	17.42	19.62	-	-	Fixed

					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 other 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

(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 2023				
	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	59,431,958	9,186,684	11,687,327	8,572,657	88,878,626
including: fixed rate	48,074,474	9,027,894	10,952,726	8,572,657	76,627,751
variable rate	11,357,484	158,790	734,601	-	12,250,875
Interest-bearing liabilities	73,604,911	5,242,256	2,756,289	181,826	81,785,282
including: fixed rate	68,222,254	5,242,256	2,756,289	181,826	76,402,625
variable rate	5,382,657	-	-	-	5,382,657
GAP	**(14,172,953)**	**3,944,428**	**8,931,038**	**8,390,831**	**7,093,344**
including: fixed rate	(20,147,780)	3,785,638	8,196,437	8,390,831	225,126
variable rate	5,974,827	158,790	734,601	-	6,868,218
Impact of changes in interest rates on net interest income:					
+100 b.p.	**(135,711)**	**32,798**	**33,399**	**-**	**(69,514)**
including: fixed rate	(192,922)	31,478	30,652	-	(130,792)
variable rate	57,211	1,320	2,747	-	61,278
-100 b.p.	**135,711**	**(32,798)**	**(33,399)**	**-**	**69,514**
including: fixed rate	192,922	(31,478)	(30,652)	-	130,792
variable rate	(57,211)	(1,320)	(2,747)	-	(61,278)

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

					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	7,238,213	227,874	1,100,079	-	8,566,166
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	1,894	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)	(1,894)	(4,114)	-	(6,860)

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 2023		As at 31 December 2022	
	Discount rate +1	Discount rate -1	Discount rate +1	Discount rate -1
Change in fair value of investments at FVTOCI	(122,344)	124,865	(14,385)	14,471
Impact on other comprehensive income/loss and equity	**(122,344)**	**124,865**	**(14,385)**	**14,471**

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 2023 Total
FINANCIAL ASSETS						
Cash and cash equivalents	10,134,906	543,589	127,347	21,329	-	10,827,171
Loans and advances to banks	128,140	9,131,912	11,745,562	411,901	74,478	21,491,993
Loans and advances to customers	17,507,602	5,928,772	1,422,401	3,124	-	24,861,899
Investments in securities						
Investments at fair value through other comprehensive income	9,361,058	-	-	-	-	9,361,058
Investments at amortized cost	29,407,835	4,591,406	-	-	-	33,999,241
Other financial assets	112,832	1,016	826	-	-	114,674
TOTAL FINANCIAL ASSETS	**66,652,373**	**20,196,695**	**13,296,136**	**436,354**	**74,478**	**100,656,036**
FINANCIAL LIABILITIES						
Due to other banks	15,041	170	-	-	-	15,211
Customer accounts	47,640,116	22,566,799	10,840,783	737,413	69,975	81,855,086
Other borrowed funds	53	-	-	-	-	53
Other financial liabilities						
Lease liabilities	90,415	289,325	-	-	-	379,740
Other financial liabilities	685,814	44,368	47,734	4,345	-	782,261
TOTAL FINANCIAL LIABILITIES	**48,431,439**	**22,900,662**	**10,888,517**	**741,758**	**69,975**	**83,032,351**
CURRENCY POSITION	**18,220,934**	**(2,703,967)**	**2,407,619**	**(305,404)**	**4,503**	
Accounts payable on contracts with derivative financial instruments	(800,000)	-	(5,014,299)	-	-	(5,814,299)
Accounts receivable on contracts with derivative financial instruments	-	4,991,920	799,621	-	-	5,791,541
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(800,000)**	**4,991,920**	**(4,214,678)**	**-**	**-**	
NET POSITION	**17,420,934**	**2,287,953**	**(1,807,059)**	**(305,404)**	**4,503**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	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 other 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)

Foreign currency risk sensitivity. The following table details sensitivity of the Bank's financial performance and equity to 10% (31 December 2022: 10%) increase and decrease in USD and EUR official exchange rate against UAH. 10% (31 December 2022: 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 2022: 10%) change in foreign currency rates.

	31 December 2023		31 December 2022	
	UAH/USD +10	UAH/USD -10	UAH/USD +10	UAH/USD -10
Impact on profit or loss and equity	114,398	(114,398)	115,791	(115,791)

	31 December 2023		31 December 2022	
	UAH/EUR +10	UAH/EUR -10	UAH/EUR +10	UAH/EUR -10
Impact on profit or loss and equity	(90,353)	90,353	(145,026)	145,026

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.