JOINT STOCK COMPANY
OTP BANK

Annual Report
for the Year Ended 31 December 2021

JOINT STOCK COMPANY OTP BANK

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Management Report for the year 2021
Joint Stock Company OTP Bank

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ADDRESS OF THE SUPERVISORY BOARD'S CHAIRMAN

Dear colleagues!
In these challenging times, it is important to take a look back on how OTP Group and OTP Bank, Ukraine in particular performed in 2021, so that we can draw strength from our results and look into the future with hope, knowing that our team can overcome any challenge!
2021 was a year of active growth for OTP Group. We consistently implemented an ambitious strategy of digital transformation with a customer-centric approach. In particular, a strategic partnership with the Hungarian Ministry of Innovation and Technology and SambaNova Systems has been launched to create Europe's fastest AI supercomputer and provide customers with faster and more personalized artificial intelligence-based financial services.
OTP Group remains one of the most active financial institutions in the mergers and acquisitions market in Europe. Last year OTP Bank announced acquisition of Alfa Bank in Albania, and a similar transaction – expanding in a country where OTP Group already had a presence – is about to be completed with closing of purchase of Nova KBM in Slovenia. OTP Group is also actively trying to enter new markets, therefore a deal to privatize a bank in Uzbekistan is in progress.
Plenty of prestigious professional awards proved how fruitful and efficient OTP Group`s work was. Most importantly, OTP Group received the Bank of the Year 2021 award in Central and Eastern Europe, as well as in Croatia, Hungary, Montenegro and Slovenia markets from the reputable business magazine The Banker. The Euromoney Awards for Excellence 2021 also recognized OTP Group to be the best bank in Central and Eastern Europe. On the top of that, the world-famous Global Finance Magazine recognized OTP Private Banking, Hungary to be the Best Private Bank in Central and Eastern Europe for the first time. These awards became a recognition of OTP Group's transformation into a prominent regional player.
For OTP Bank in Ukraine, 2021 was also a very successful year in terms of key business indicators, in particular, the loan portfolio of legal entities and individuals grew significantly. Following the results of the year, OTP Bank holds leading positions in most bank ratings compiled by independent research institutions and influential business publish-houses in Ukraine.
Opening new opportunities, OTP Bank delivered several new products and services to its customers in 2021, and one of the brightest was the launch of a brokerage service to purchase shares on international stock exchanges for private banking clientele. Thus, OTP Bank became the first among all Ukrainian banks to act as a broker and start buying securities from Dow Jones and S&P500 index. Hundreds of deals worth several million dollars were conducted in just a few months after the launch. This fully corresponds to the ambitious goal of OTP Group, which plans to become one of the three leaders in investment banking in Central and Eastern Europe over the next three years.
Despite the pandemic and challenging geopolitical situation, OTP Bank in Ukraine continued to support micro, small and medium-sized Ukrainian business, provided funding for large enterprises and actively participated in government lending programs.
OTP Group highly appreciates the results demonstrated by OTP Bank in Ukraine in 2021 and feels optimistic about its further development and growth. Looking at the pattern of the previous crises that struck Ukraine – the financial crisis in 2008-09, or the military crisis in 2014-15 – we strongly believe that OTP Bank, Ukraine will be even more successful than ever once the peace returns to Ukraine, and our Bank will be at the forefront of an even stronger and more prosperous Ukraine that we will see in the future.

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

ADDRESS OF THE MANAGEMENT BOARD'S CHAIRMAN

Dear colleagues,

2021 was a year of great achievements and good news for OTP Bank, which were possible due to the tight-knit and responsible work of the entire team. And even quarantine measures, which were introduced from time to time in certain regions of the country, did not significantly affect the operational efficiency of the bank. Due to the fact that back in 2020 established the processes of remote work with partners and clients, in 2021, the remote service and communication became an integral and normal part of the usual practice.
Last year, the most important achievement of OTP Bank was the expansion of the access to financing and savings opportunities for our customers. We have launched a number of new credit products, including mortgage lending to individuals, financed a number of significant infrastructure and investment projects, and entered the TOP-10 lender banks under the state program "5–7–9%" in terms of lending to small and medium businesses. OTP Bank was the first in the Ukrainian market to introduce brokerage services for the purchase and sale of securities on international markets for individuals - customers of Private Banking.
Developing its own technological capabilities in providing banking services, OTP Bank integrated its services with Diia application in 2021, continued to develop the new OTP Credit mobile application and transferred decision-making on granting loans and signing loan agreements online. The focus on digitalization and robotization has promoted to simplify and speed up our internal processes and customer service as much as possible.
In 2021, the bank significantly increased its gross income, provided a record increase in the loan portfolio of legal entities and individuals, and substantially increased the number of active customers in the retail and corporate segments.
At the same time, military aggression against our country and significant losses in the economy require forced adjustments to the operational activities, current and strategic plans of all participants in the banking market, including OTP Bank.
Our team has gained much experience, acquired the skills of instant response, productive work and protection of interests of its customers in the crisis circumstances of previous years, and through them will persistently move forward, overcoming today's challenges and obstacles.
Therefore, the Bank plans for the future - gradual restoration of its business, further development of the technologies and provision of comprehensive customer support through excellent products, innovative services and professional assessment.

Volodymyr Mudryi
Chairman of the Management Board of OTP Bank JSC

MACROECONOMIC ENVIRONMENT

A characteristic feature of the development of the global economy in 2021 was the rapid recovery of aggregate demand against the background of the limited aggregate supply, including a shortage of certain materials, supply chain disruptions and logistics problems. The difference in vaccination rates and Covid-19 virus mutation has affected certain industries that are most dependent on lockdowns, as well as regional features of the world's economic recovery. The accumulation of such imbalances has caused lower expectations for global economic growth in 2021.

Among the key economies of the world, China was the first to reach the size of the economy before the pandemic due to significant investments in infrastructure projects started back in 2020, but the need to resolve the issue of "overheating" of the real estate market and the policy of zero tolerance to the pandemic against the background of new mutations of the virus caused a rapid slowdown in economic growth in the fourth quarter of 2021.

The economies of the United States of America and the United Kingdom as of the end of 2021 completely overcame the negative consequences of the pandemic for the economy in 2020. The indicators of the recovery rate of the European Union countries have been and remain quite different: France has reached pre-pandemic levels, Germany and Italy are about 1% below the level of 2019, and Spain still has a significant gap. In general, this allowed us to come close to the indicators of the size of the economy before the pandemic, but not to its full recovery. The greater inertia of the EU economy, especially the impact of the pandemic on supply chains in global trade, especially in Germany, where the share of exports is significant relative to the size of the country's GDP, is one of the reasons that the European Central Bank is delayed in transition from "stimulating" to "restraining" monetary policy and, accordingly, to withdrawal of quantitative easing instruments and gradual raise of the key rate.

Japan's economy is developing very volatile from quarter to quarter: the decline in the first and third quarters is followed by growth in the second and fourth quarters, which led to the postponement of the full recovery term to the pre-pandemic level for the first half of 2022, which will be provided by improvements in private consumption indicators and the establishment of stable production, as well as sales indicators in the auto industry.

The dynamics of the economy of developing countries was determined by the sectoral structure of the economy: the advantage was on the side of countries with a high share of agriculture and mining, while the countries with a high dependence on tourism and services were among the outsiders. Also, the dynamics was significantly influenced by the level of vaccination of the population: a higher level provided a more dynamic recovery rate and less negative impact from "lockdowns" and restrictions on economic activity, which were used to counteract the spread of new strains of Covid-19 virus.

The natural effect of the imbalance of supply and demand during 2021 was a significant increase and maintenance of production costs at the high level, which through the transmission mechanism led to an increase in prices for the end user and, accordingly, record indicators of consumer inflation. During the year, the opinion of the major global central banks has gradually changed regarding the assessment of this phenomenon as short-term and temporary to medium-term and fundamental. The major part of the global central banks has started programs to withdrawal of quantitative easing instruments and switch to a "restraining" monetary policy by raising the key rate. These decisions will directly affect the stabilization and balance of global economic growth, but the negative impact will affect the cost of borrowing for developing economies, which, in its turn, will lead to an increase in the gap between the growth rates of developed and emerging economies.

The withdrawal of fiscal incentives and overcoming the consequences of natural disasters in previous years will lead to a correction in the cost of raw materials and finished metallurgical products to the level close to the pandemic on a rather short time horizon. The index of the cost of agricultural products reached its peak value at the end of 2021, but a gradual normalization of the supply-demand ratio is expected, as well as a decrease in the cost of production, which will affect the downward trend in the cost of these products. The rapid recovery in energy costs that was observed in 2021, in particular in connection with the introduction of measures to combat climate change, will stabilize, but will remain at a high level, which, in turn, will encourage the proactive implementation of further initiatives and measures to combat climate change in the medium and long term.

THE MAIN TRENDS OF THE UKRAINIAN ECONOMY

The growth indicators of the Ukrainian economy in 2021 did not meet expectations; during the year the GDP growth rate was revised from about 4% to the range of 3.1–3.5%. As a result, the economy of Ukraine economy has not recovered to its pre-pandemic level. Despite delays in the launch and full deployment of the national Covid-19 vaccination program (their result is another "adaptive" lockdown during the first half of 2021), the consumption remained the engine of economic growth. Record harvests of major agricultural crops against the background of consistently high prices for agricultural products on world markets provided high growth rates during the second half of 2021. Another component that contributed to GDP growth in 2021 was primarily public sector investment in the infrastructure development and restoration programs and, partly, deferred private sector capital investment. The lack of significant energy purchases against the background of record high prices for products of the Ukrainian mining and metallurgical sectors of the economy supported the contribution of foreign economic activity to GDP at a relatively neutral level.

The private consumption remained the engine of economic growth during 2021 and proved to be quite resistant to restrictions against the background of the pandemic, which occurred three times during the year. The adaptation of representatives of small and medium businesses to the new conditions of economic activity during the pandemic provided the restoration and conduct of profitable activities of individual entrepreneurs, which positively affected the demand in private consumption. The guarantee to consumption growth was an increase in household incomes in nominal terms by about 20% and in real terms, taking into account the correction for the consumer price index by almost 10%. Also last year, there was a natural shift in consumer behavioral patterns, typical for the period of recovery from the crisis – the transition from accumulating savings to consuming. The balance of funds on individuals' accounts in Ukrainian banks increased by about 16% over the year, which is almost 10 percentage points less than in 2020. Thus, for most of the year, the growth rate did not exceed 10% and sharply increased only at the end of the year due to social payments, including ePidtrymka program. Meanwhile, consumer lending increased by more than 20% during the year, providing financing for up to 20% of consumer spending. Indicators of consumer sentiment and the feasibility of large purchases remain at a sufficiently high level and have an upward trend, which lays the basis for further growth of private consumption, but at a less rapid pace due to the slowdown in further growth of real incomes and an increase in utility costs, as a result of the gradual bringing of administratively regulated tariffs to their market value.

The development of industrial production was quite volatile during the year and had different industry dynamics. Product and energy prices carriers on international markets had a significant but multi-vector impact on industrial production indicators. In the first half of the year, high prices for products of the mining and metallurgical sector of the economy had a positive impact, but with the slowdown in fiscal measures from China in the 2nd half of 2022, the prices on world markets were corrected, which affected the financial results of enterprises in this sector. At the same time, energy prices had a clear upward trend, which sharply accelerated with the beginning of the heating season in the northern hemisphere. This had a negative impact not only on certain sectors of the economy where energy is a significant or predominant component of production costs, such as the chemical industry, but also on all industrial production sectors in general, which caused a record growth of the producer price index at more than 60% in 2021. The recovery of industrial production to the pre-pandemic level was also hindered by logistics problems that arose due to the high cost of international sea transportation, as well as a sharp increase in the cost of rail transportation in Ukraine starting from the second half of the year due to restrictions on the proposals of the rolling stock. In addition to the ordinary seasonality in the creation of additional value specific to the construction sector, since the end of the third quarter, the effect of deferred demand has dried up and a certain point of equilibrium of supply and demand has been reached, taking into account the increase in the cost of construction, which slowed down the development of this sector of the economy. State programs for infrastructure development had a positive effect as of the end of 2021, but they were in a smaller volume than in 2020. The prospects for rapid development of mechanical engineering to meet the demand for deferred investment in fixed assets during the pandemic are weakened by a fading and still the current period of high production costs for all industries, which hinders the possibility of improving the contribution of industrial production to GDP growth of Ukraine in 2022.

Adverse weather conditions in the 2020/2021 marketing year negatively affected GDP dynamics during most of the year. The record harvest of the 2021/2022 marketing year, which, however, was harvested quite late, had the delayed but very significant effect on GDP in the 4th quarter of 2021 (the growth for the quarter of more than 5%) and against the background of record high world prices for the main range of grain crops of Ukraine lays an excellent basis for high quarterly GDP indicators of Ukraine during the first half of 2022.

Inflation

As of the end of 2021, the annual inflation rate reached 10%, which is twice as high as in 2020 and, accordingly, the target of inflation targeting of the National Bank of Ukraine. This development of inflation is typical for the economy to recover from the crisis, but during the year there was an intense discussion about the nature of the development of inflation: whether it is temporary and transitive, or long-term and fundamental. At the beginning of the year, the prevailing view was about the transitive nature of inflation caused by sharp changes in the cost of food and energy, but against the background of significant consumer demand and a sharp increase in producer prices across the entire spectrum of finished products, the growth was also reflected in the base consumer price index. This resulted in a revision of the understanding of the nature of inflation as fundamental. Redefining the nature of inflation has led to the need to use monetary policy tools to return the inflation curve to its target value. The National Bank of Ukraine was one of the first to start the transition to a "restraining" monetary policy due to an increase in the discount rate for the whole year by 300 basis points and a change in the design of the monetary policy. As a result, the peak of inflation was passed in the third quarter and inflation began to fall. However, still stable core inflation, the dominance of pro-inflationary sentiment and geopolitical tensions at the end of the year, which through the currency exchange rate channel puts additional pressure on consumer goods prices, led the National Bank of Ukraine to revalue the trajectory of inflation return to the target level of 5%, which is expected to be reached no earlier than the first half of 2023. To establish the trends of declining inflation, the National Bank of Ukraine will adhere mainly to a "restraining" monetary policy with a possible further increase in the discount rate and estimates the annual inflation rate as of the end of 2022 at the level of 7.7%. Despite the growing uncertainty as a result of geopolitical tensions on the north-eastern border of Ukraine, a significant part of the consumer price index on the medium-term horizon will be determined by the component of administrative tariffs, primarily for utilities and energy carriers, the speed of bringing them to the market level is uncertain, which increases the risk of deviation of the inflation rate from the monetary policy objective of the National Bank of Ukraine.

The Balance of Payments and Currency Exchange Rate

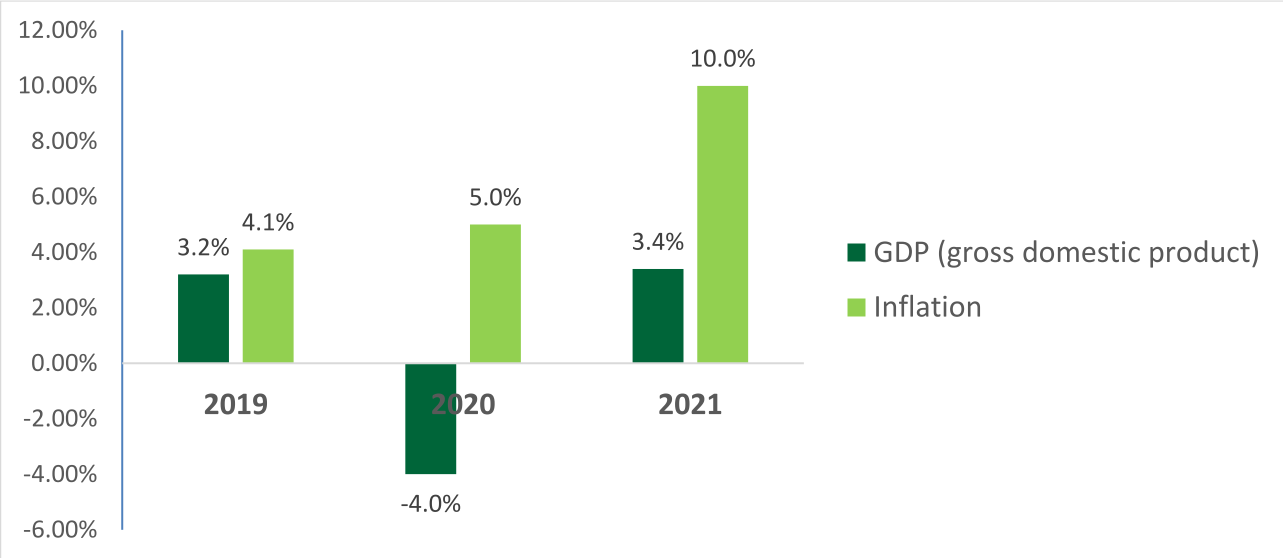
The current account surplus in 2020 was expected to be replaced by a deficit of 1.1% of the country's GDP. Among the positive factors that prevailed during the first half of 2021, we can note a favorable price conjuncture for Ukrainian export of goods, primarily the products of the mining and metallurgical complex, which in the second half of the year caused a significant correction towards the current account deficit due to the payment of a significant amount of profits through dividends. The decline in the cost of mining and metallurgical products starting from the second half of 2021 lays the basis for the increase in the current account deficit for the next years. The low yields of 2020 were offset by the high cost of agricultural products on international commodity markets. Starting from the end of the third / beginning of the fourth quarter, the market began to receive a record harvest in 2021, which supported the balance of trade in goods and will compensate for widening of the trade deficit at least next year. Against the background of a sharp rise in the energy cost, the negative impact was offset by the reduction in import volumes for most of 2021. However, with the achievement of critical reserves for balancing energy with the start of the active heating season, the import was resumed at the end of the year. The high cost of energy resources will be a key factor in the sharp growth of the trade deficit over the next few years. Record high exports of IT services made it possible to compensate for the consequences of importing international tourism services, the recovery of which is gradually gaining momentum. An increase in remittances from migrant workers, another consequence of the borders opening, from about USD 11 billion in previous years, up to about USD 15 billion sustained the current account deficit from significant widening due to significant dividend payments at the end of 2021.

The distribution of funds of the International Monetary Fund in the framework of overcoming the consequences of the pandemic for the world's economies, the provision of the next tranche of the International Monetary Fund (IMF) stand-by program and macro-financial assistance from the European Commission allowed the government of Ukraine to pass peak payments on obligations issued on international markets, and the National Bank of Ukraine to accumulate a record amount of gold and foreign exchange reserves, the equivalent of USD 30.9 billion, that corresponds to more than 90% of the minimum required level of reserves according to the requirements of the IMF. Given the gradual transition of the world's key central banks to "restraining" monetary policy, which leads to an increase in the cost of borrowing on international capital markets for emerging economies in general, and significant geopolitical tension on the border of Ukraine, which for a certain period of time closes the country's access to these markets; continuing the cooperation with international creditors is critical for Ukraine in the medium-term horizon.

The economy of Ukraine is projected to grow by about 3.5% in 2022. About GDP components:

- the private consumption will remain a key driver of growth, but the growth rate will slow down due to a more restrained growth in real incomes of the population and the exhaustion of the effect of unmet pent-up demand in previous years;
- the reduction of the volume of state programs for infrastructure development and finding a balance of effective supply and demand in housing construction will cause the reduction in investment growth rates;
- the contribution of agriculture will remain at a high level, but the base for comparison due to record yields in 2021 will also be very high against the background of the significant increase in the cost of production (fuel and lubricants, seeds and mineral fertilizers);
- the current account of trade in goods will move to a negative value due to the multidirectional movement of the value of goods of Ukrainian export and import: the end of the "super cycle" for products of the Ukrainian mining and metallurgical sectors of the economy and an increase in the energy cost.

Macroeconomic development risks of the Ukrainian economy in 2022 are balanced: the risk of the fiscal sector due to the state budget deficit is held within the acceptable level agreed with the International Monetary Fund; the monetary policy is in the "containment" phase and is aimed at returning the inflation rate to its target level; the growth of the current account deficit of trade in goods and services is offset by record high foreign exchange reserves of the National Bank of Ukraine. The risk of increase in the cost of financing for developing economies is smoothed out by the existing program of Ukraine with the International Monetary Fund and the high probability of Ukraine meeting the requirements of the memorandum and continuing the program after June 2022. During 2021, the geopolitical risk of military escalation on the territory of Ukraine significantly increased, and in 2022 this risk is expected to be kept at a sufficiently high level.



THE STATE OF FINANCIAL MARKETS AND BANKING SECTOR

For the balanced development of the banking sector, reducing the "dollarization" of bank balance sheets and cleaning up of the balance sheets of banks of non-core assets, the National Bank of Ukraine completed the process of introducing such measures in 2021:

- increasing the credit risk ratio to 150% for consumer loans to calculate the adequacy of banks' capital;
- for domestic government bonds denominated in foreign currency, purchased after March 31, 2021 – an increase in the credit risk ratio to 100% for calculating the adequacy of banks' capital;
- deduction ratios from the fixed capital of fixed assets that the bank does not use in its activities and that are on the bank's balance sheet for a certain period of time.

In addition to the already implemented instruments, the National Bank of Ukraine continued to converge with the best international practices of bank supervision. The calculation of the liquidity ratio (net stable financing ratio – NSFR) was provided, starting from April 01, 2022, the indicator will be set at the target level of 100%. The capital regulation was also introduced to cover operational risks and market risks, including these components in the calculation of the bank's capital adequacy from 2022 and 2023, respectively. NBU also plans to introduce a new method of calculating the regulatory capital of banks in accordance with the requirements of CRD IV / CRR of European regulators. Based on the satisfactory results of stress testing, which confirmed a sufficient capital reserve of the banking system of Ukraine, positive expectations for the development of the global economy and the economy of Ukraine, the NBU will consider the issue of the deadline for returning to the use of capital buffers in the first half of 2022. To improve the process of capital planning and allocation, Ukrainian banks will start calculating the bank's internal capital (ICAAP process) in 2024.

The rules of supervision of banks and banking groups were also unified: the procedure for calculating the regulatory capital of the banking group was modified, taking into account the indicator of uncovered credit risk and the calculation of consolidated standards, the calculation of liquidity indicators LCR and NSFR on a consolidated basis was introduced, and the requirements for the recovery plan were expanded to banking groups.

The banking sector passed 2021 with a significant surplus of structural liquidity, the size of which in the national currency temporarily exceeded 200 billion UAH, which significantly slowed down the transmission of the transition to the tighter monetary policy of the NBU to market interest rates. The growth rates of banks' loan portfolios approached 30%: on the demand side — due to the deferred demand of corporate clients for investment projects for most of the year and the expected increase in working capital needs due to a significant increase in cost and longer logistics chains, as well as the transition from the accumulation period to consumption by retail clients; on the supply side — due to the gradual easing of banks' credit standards for all customer segments. We should also note the beginning of the resumption of mortgage lending to individuals, the size of new issues of which is close to UAH 8 billion. At the same time, the ratio of mortgage loans to the country's GDP is still extremely low, namely, less than 1%. The share of state programs to subsidize mortgage lending is still insignificant and does not exceed 20% of new issues, but with the modification of programs, the share of such credit products is expected to increase.

The growth in the size of banks' loan portfolios, combined with greater sensitivity to the discount rate increase of the National Bank of Ukraine (NBU) in interest rates on loans, compared with the reactivity of interest rates on deposits (which, as a rule, react with a 6-month lag to changes in the nature of monetary policy), against the background of insignificant contributions to reserves to cover credit risks, provided a record profitability of the banking system of Ukraine, which is estimated at about UAH 80 billion for 2021.

The work on cleansing the balance sheets of banks from problem loans was continued in 2021, which, in combination with a significant increase in the portfolios of non-problem loans, provided a record annual reduction in the share of problem debt to about 30% of the loan portfolio of Ukrainian banks.

The greatest strategic challenge for the banking sector of Ukraine in the medium term is still performance indicators, which can be improved through optimization and digitalization of operational processes, the realism of which was confirmed by adaptation to new standards for conducting operations during the pandemic, as well as the introduction of which significant progress was achieved in 2021. It should be noted that the shift of emphasis on the hryvnia in the loan portfolio made it possible to reduce the risk of dollarization of banks' loan portfolios. Although, significant foreign currency balances in highly liquid assets with low demand in the loan portfolio create an additional burden on the profitability indicators of Ukrainian banks. However, given the beginning of the cycle of raising interest rates by the main central banks of the world, the prospects for structural excess liquidity of Ukrainian banks seem to be better.

OTP GROUP

OTP Group operates in 11 countries, where more than 40 thousand employees serve more than 16 million customers daily.

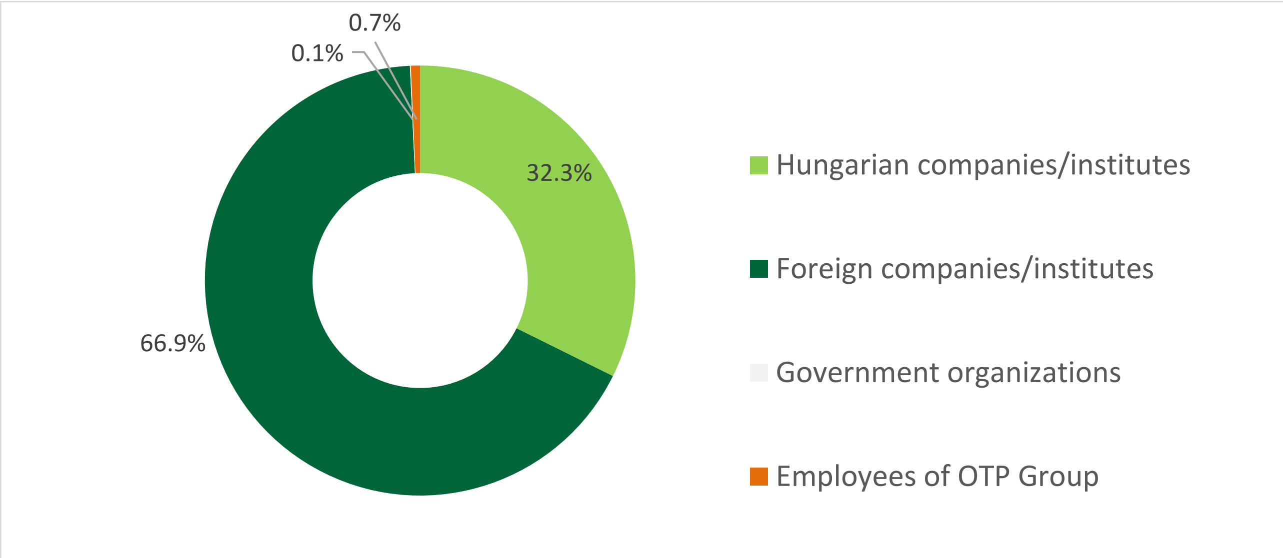
OTP Group is one of the most reliable financial institutions in the markets of Central and Eastern Europe, which focuses on service and meets all the needs of private and corporate customers in financial services thanks to a universal business model.

Established in 1949 as a state-owned savings bank, OTP Group unites large subsidiaries in the field of insurance, real estate, factoring, leasing, asset management, investment and pension funds nowadays. Through its subsidiaries, the Group operates in the markets of 11 countries — Hungary, Ukraine, Albania, Bulgaria, Moldova, Romania, Croatia, Montenegro, Slovenia and some others — and year by year strengthens its leadership positions.

The strategic goal of OTP group is to become the most successful universal banking group in Central and Southern Europe. In addition to openness to innovation, the secret to OTP group's success lies in the fact that 70 years of experience and a customer base of almost 16 million help it understand and meet the needs of its customers well.

The Ownership Structure of the Banking Group

OTP group's shareholders are Hungarian investors (32.39%), foreign companies and individuals, international organizations (66.85%), OTP Group employees (0.69%) and government organizations (0.07%).



Today, the 100% owner of the Ukrainian OTP Bank is the Hungarian OTP Bank Plc. - the largest financial institution in Hungary and the market leader with a share of almost 28% in terms of total assets (as of the end of Q3 2021).

OTP Bank in Ukraine

OTP Bank is one of the largest Ukrainian banks with a 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 customers only the best service and services, including credit and deposit products, insurance, asset management, leasing and factoring, corporate and investment banking.

In 2021, OTP Bank continued a harmonious increase the overall value of its retail and corporate portfolios. The bank also continues its strategy of investing in the IT sector and digitalizing the client services for private and corporate customers.

In Ukraine, the group, in addition to the Bank, includes OTP factoring, OTP leasing, OTP capital. The team in Ukraine has 3,448 employees, of which 3,203 work in OTP Bank.

THE MEMBERS OF THE SUPERVISORY BOARD

Zoltán Major, a Chairman - until January 30, 2022 (inclusive)
Péter János Bese, a Member
Tamás Katona, a Member
Zoltán Tóthmátyás, a Member
András Kuhárszki, a Member – until January 30, 2022, a Chairman – from January 31, 2022
László Pelle, an Independent Member
Sándor Váci, an Independent Member
Maria Ilona Tarnainé Sarudi, an Independent Member

THE MEMBERS OF THE MANAGEMENT BOARD

Volodymyr Mudryi, a Chairman of the Management Board

Liliya Lazepko, a Member of the Management Board, responsible for the bank's operational activities and IT

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

Oleh Klymenko, a Member of the Management Board, responsible for retail business

Taras Prots, a Member of the Management Board, responsible for risk management

KEY STAGES OF DEVELOPMENT AND EVENTS OF THE PAST YEAR

- OTP Bank's assets have almost reached UAH 70 billion.
- The volume of the loan portfolio exceeded UAH 40 billion.
- Customer funds – about UAH 60 billion.
- The number of small and medium businesses (SMB) clients exceeded 50 thousand legal entities.
- The bank entered the top 10 largest banks in Ukraine in terms of net assets and net profit and took the 9th and 8th places, respectively.
- The loan portfolio of OTP Agro Fabrika reached UAH 1.9 billion during peak periods and as of the end of the year amounted to almost UAH 1.5 billion.
- The bank entered the top 10 banks in terms of the size of the loan portfolio under the state program "Affordable Loans 5-7-9%" and became the largest bank with a foreign capital in Ukraine, which provided its customers with the possibility of financing under state guarantees.

RATINGS AND AWARDS

- OTP Bank's Private Banking received the award as a leader in the nomination "Best Private Bank in Ukraine" in the prestigious international rating Global Private Banking Awards 2021, which is held annually in London by the authoritative publication The Banker and Professional Wealth Management, which are a part of the Financial Times Media Group. The Global Private Banking Awards also recognized OTP Bank's Private Banking as the best in Hungary.

- Euromoney recognized OTP Bank as one of the best financial institutions in Ukraine in the category "Best Private Banking Services". OTP Bank was recognized as the best in the Ukrainian financial sector, it took first place in customer service for Mass Affluent, Super Affluent and Ultra HNW. Also, according to the results of the study, OTP Bank entered the top three in the categories "International Customer Service" and "Investment Management", becoming the last only bank in the top 3, which confirms its significant expertise in analyzing capital markets and providing consulting services.

- The Chairman of the Management Board of OTP Bank Volodymyr Mudryi was included in the rating of the best top managers of Ukraine, which includes 36 CEOs from the 12 most important sectors of the economy according to The Focus magazine, and became one of the three bankers included in this rating.

- The Chairman of the Management Board of OTP Bank Volodymyr Mudryi took first place in the top 5 best CEOs of global brands in Ukraine, compiled by The TOP-100 magazine. Ratings of the largest".

- The national depository of Ukraine, together with PJSC "Settlement Center" and the Professional Association of Capital and Derivatives Market Participants, awarded OTP Bank with the distinction "For expanding the line of new instruments in the capital markets of Ukraine".

- The team of top managers of OTP Group in Ukraine received a number of honorary awards based on the results of the annual rating "50 Best Banks" for 2020. The Chairman of the Management Board of OTP Bank Volodymyr Mudryi was recognized as one of the five best bankers — top managers of Ukraine. The Member of the Management Board for Corporate Business Development Alla Biniashvili won first place in the nomination "Best Corporate Banker", a Member of the Management Board for operations Liliia Lazepko won in the nomination "Best Chief Operating Officer", and a Chairman of the Management Board of OTP leasing Andrii Pavlushyn won a second place in the nomination "Representatives of the Financial Sector" in the research "Financial Recognition". OTP Leasing was also recognized as the best in the "Leasing" category, and OTP Bank — in the nomination "Loans for Small and Medium Businesses". Premium banking from OTP Bank took an honorable second place, and internet banking — the sixth place among the 50 best Ukrainian banks.

- OTP Bank received two awards in the Finawards 2021 rating from leading financial portals Minfin.com.ua and Finance.ua – "Best Cash Loan "(the second place) and " Leader of the Bank Sustainability Rating" (the third place).

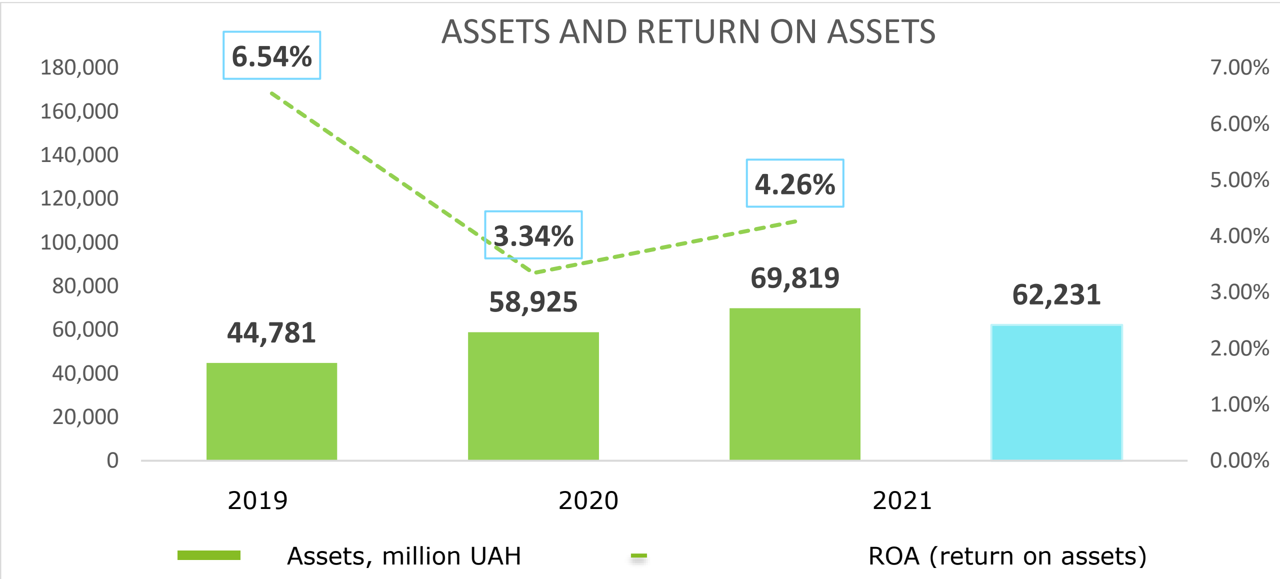
- Commerzbank AG, with which OTP Bank fruitfully cooperates under the trade finance program, awarded it with the Trade Finance Award 2021 for excellent cooperation and successful relations of the highest level.

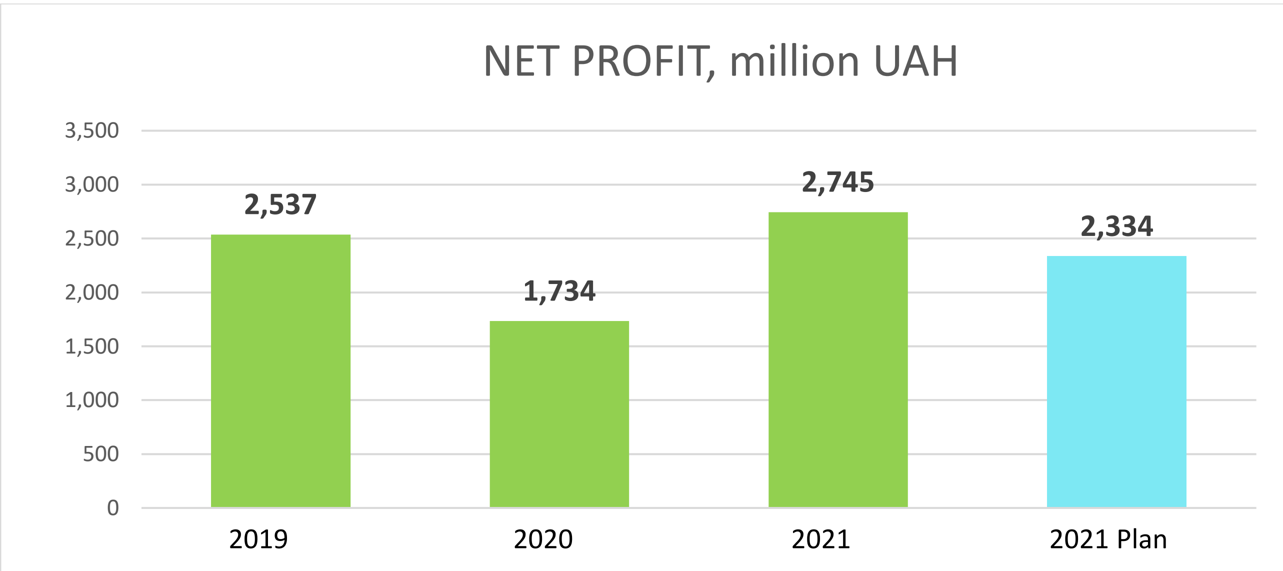
- The Member of the Management Board for OTP Bank operations and IT Liliia Lazepko and CEO of OTP Leasing Andrii Pavlushyn became laureates of the prestigious Andras Fey award in recognition of the significant results of their business areas and successful business conduct.

- OTP Bank was included in two categories of the rating "Best Banks and Leading Bankers in the SME market-2021" from the leading economic publication BUSINESS. In particular, the bank took the second place in the rating "Support of SMEs" – for achievements in lending and daily high-quality service to small and medium businesses. In addition, OTP Bank entered the top five banks in the category "Agrofinance" – for its leading positions in lending and servicing farms and small agricultural companies.

OVERALL FINANCIAL RESULTS AND ACHIEVEMENTS

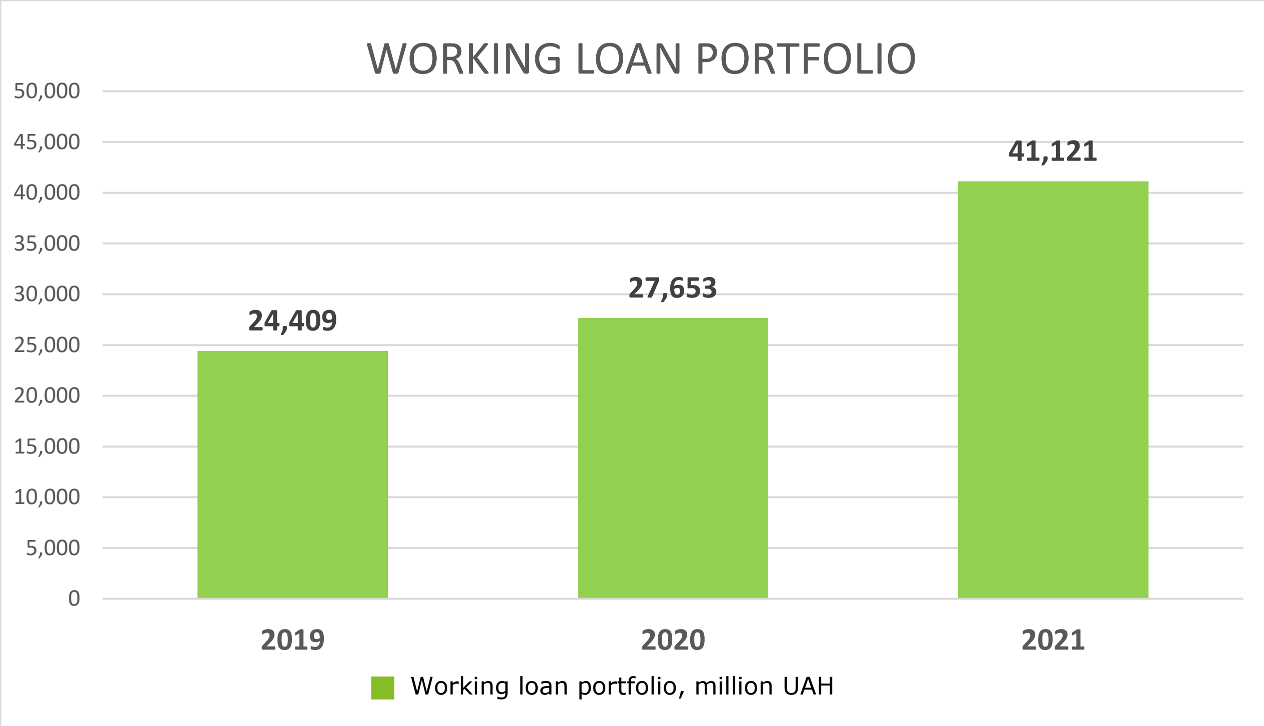
In 2021, OTP Bank's assets continued to grow significantly and reached the level of UAH 69.8 billion, which is 18.5% more than at the beginning of the year, and UAH 7.6 billion more than was stipulated by the plan for 2021. The return on assets improved to 4.26% in annual terms. The increase in the level of profitability was significantly affected by the growth of net interest income as a result of the growth of loan portfolios of both legal entities and individuals. The reserve costs were lower than in 2020, which also had a positive impact on the Bank's financial result. The Bank continued to improve the quality of its loan portfolio (a share of loans at stage 3 decreased by 5.2 percentage points) and a balanced credit risk management policy.



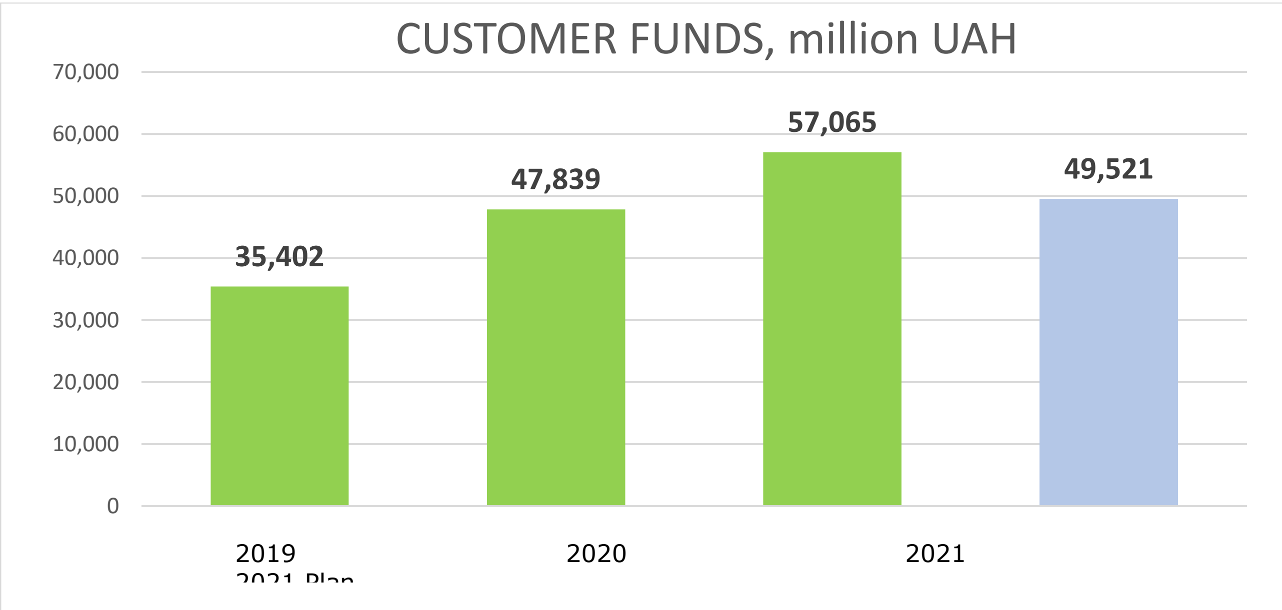


At the end of the year, the Bank entered the TOP-10 (the 9th place) largest banks in Ukraine in terms of net assets and took the 8th place in terms of net profit. The market share of net assets at the end of 2021 reached

3.40% (against 3.23% a year earlier). At the same time, both assets and financial result exceeded the planned indicators, respectively.

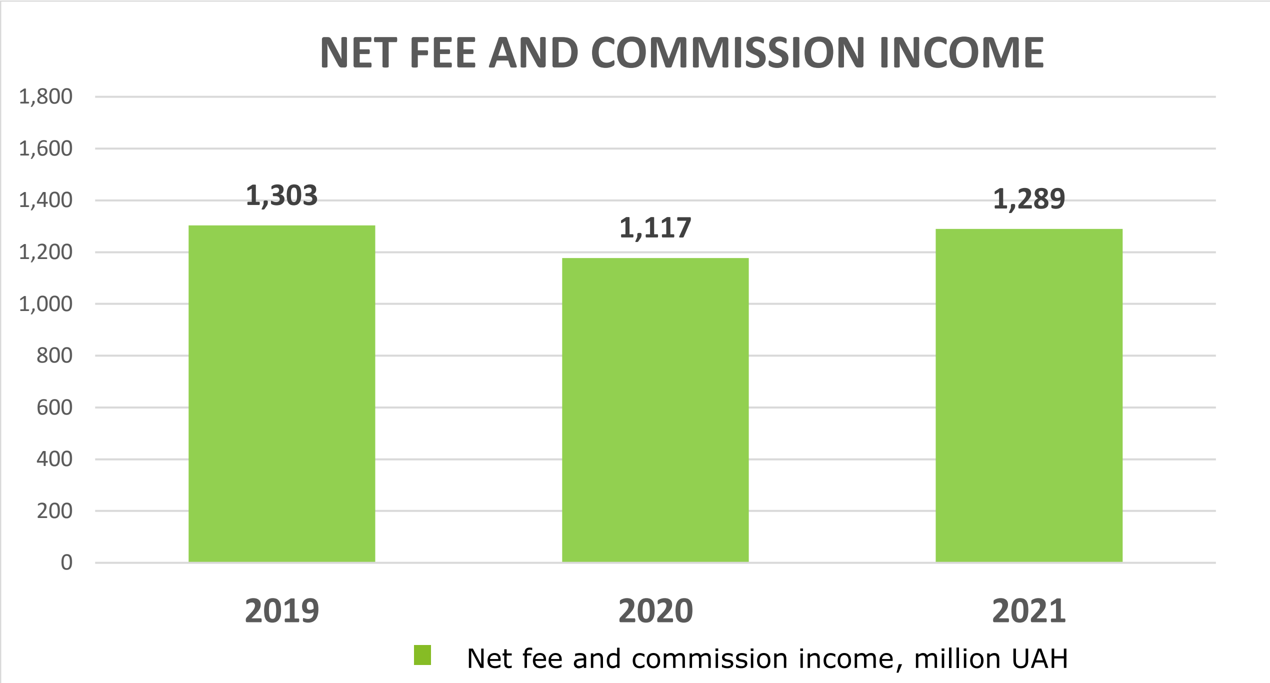


During 2021, the working loan portfolio increased by 48.7% and reached UAH 41.1 billion. This growth was due to an increase in the loan portfolio of legal entities in the national currency due to a significant increase in sales in the large corporate business segment, a decrease in interest rates and participation in the financing program in the small and medium business segment (5-7-9%).

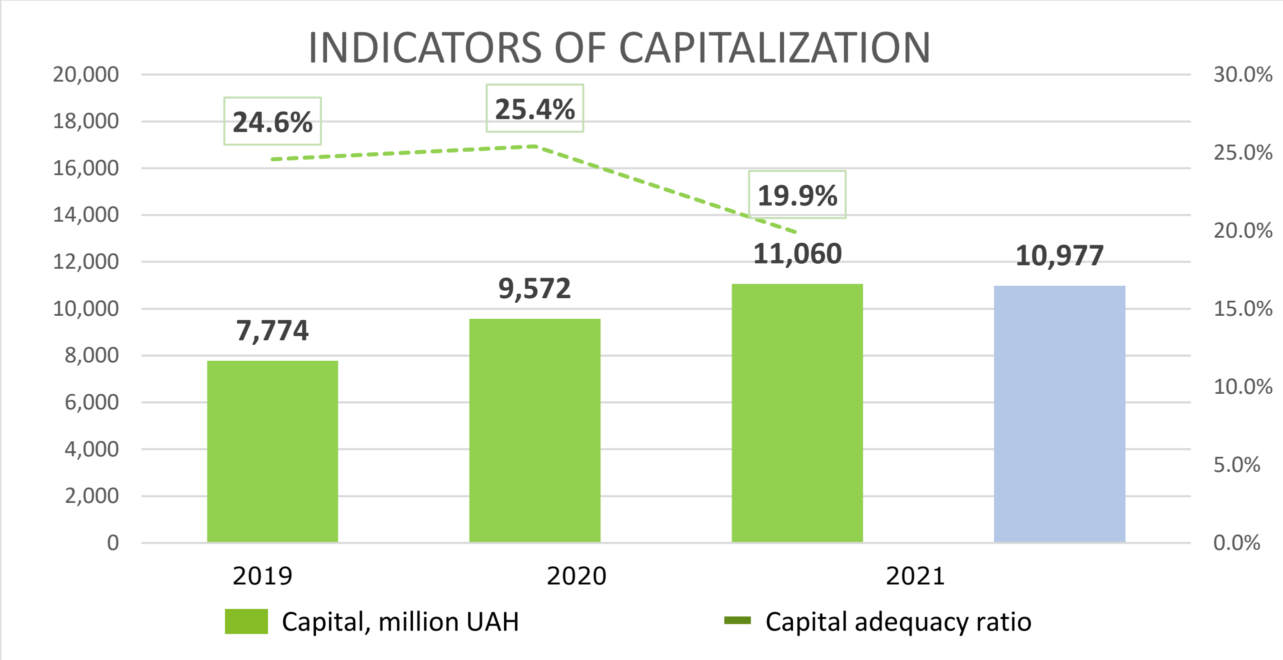


Thanks to the increase in confidence in OTP Bank, the attractiveness of deposit products and loyalty programs in 2021, the funds of legal entities and individuals increased by 19.3% and reached a record level of UAH 57.0 billion.

In general, the strategic goals in 2021 were achieved, and in some areas, such as lending to legal entities, were even significantly exceeded. The bank's strategy provides for further diversified growth of loan portfolios in all business areas and products. The consolidation in the mortgage lending market and further expansion of investment lending to legal entities will make it possible to build long-term relationships with customers and ensure further growth of the bank's assets and profits. In retail lending, the focus will remain on cash credits and credit cards. The bank's strategic goal is to improve its internal processes continuously as well as the customer experience of using its products and services.



The introduction of quarantine restrictions caused a decrease in business activity of the customers, which negatively affected the bank's commission income in 2021. The revision of interchange rates led to a relatively small increase in commission income on bank cards, while the number and volume of transactions increased significantly compared to 2020.



The capital growth due to the capitalization of profits in recent years makes it possible for the bank to be prepared for any stressful situations. The payment of dividends in 2020, a significant increase in the loan portfolio and the introduction of more stringent requirements for calculating risks in the process of calculating a regulatory capital led to a decrease in the standard of its capital adequacy. At the same time, as of the end of 2021, the capital adequacy ratio was almost doubled (with a standard value of 10%).

RISK MANAGEMENT SYSTEM

Risk Management in the 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 risk assessment and acceptance, which helps to achieve the planned profit with a sufficient level of capital in the medium and long term, taking into account the changes in business cycles and the onset of possible adverse market conditions. The Bank develops a Declaration of Risk Appetite 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 system of limits is used to distribute the risk appetite between business units, products, and risk subtypes and further control of the amount of risks. The control 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 and information security 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 an excessive volatility and concentration of risks that are outside the optimal risk-return ratio, as well as the procedures for managing each type of risk.

A comprehensive risk management system was established in the Bank and currently operates that provides a constant analysis, management and control over the risks that the Bank is exposed to in its operating activities, and makes it possible 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 unit that is subject and reporting to the Bank's Supervisory Board. The 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 Risk Management Committee of the Supervisory Board 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 intended to ensure the implementation of decisions of the Supervisory Board 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, the Bank has established a Credit Committee and Assets and Liabilities Management Committee, respectively, to manage credit risk, liquidity risks and market risks, and their activities are determined by appropriate procedures and regulations. Among the key committees created by the Bank's Management Board to implement the risk management system, the Problem Debt Management Committee, Monitoring and Reserve Committees, as well as the Operational Risk Management Committee should be noted. A 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 part 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 subject to 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. Besides, the risk management units 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 loss or additional losses or shortfall in planned income due to non-fulfillment by the debtor/counterparty of its 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 in the lending process, 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.

The 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.

The 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 will allow you to make informed decisions about the amount of expected losses and the required ratio of return and risk, avoid those classes of expected credit risks for which the income is not adequate, or the amount of risk is in quite a 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 departments of OTP Bank in Hungary. When analyzing a counterparty, 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 immutable principles of decision-making are the mandatory presence of representatives of the risk management division and their veto power if the decision leads to a violation of the Bank's risk appetite or risk limits. In the decision-making process of individual officials with credit powers, it is necessary to observe the principle of "four eyes" and unanimous agreement. There is an automatic decision-making system that is configured, maintained and monitored by representatives of the risk management division for standard products for retail customers with minimal amounts of debt. If the risk is accepted, 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 problem and potentially problem debt as well. The financial condition of the counterparty is assessed on a regular basis, and its behavior is analyzed in accordance with behavioral models, the status of debt servicing, information is collected from external sources regarding changes in the composition of counterparty participants, bankruptcy proceedings, significant legal proceedings of a material nature, the status of debt servicing according to the Credit History Bureau and Credit Register, tax arrears and/or other mandatory payments, 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 the measures, including preventive ones, that need to 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 under the control of the Monitoring and Reserve Committees, respectively.

The problem debt settlement is carried out by problem debt management units that are independent of the business units and risk management units that made decisions when issuing the credit debt. By analogy with the hierarchy of the Credit Committee, the highest collegial body is the Problem Debt Management Committee, 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 dealing with the mass segment of retail customers, standard products and debt settlement procedures predominate depending on the product and the term of non-fulfillment of obligations, while corporate segment customers are characterized by scenario analysis with the choice of the scenario that will determine the maximum repayment of debt, taking into account the state of relations with the counterparty, the cost and state of collateral, the state of claims work and the cost of money over time.

In 2021, the Bank's assets increased by 18.5%, or by UAH 10.9 billion, up to UAH 69.8 billion, while there was a qualitative change in the structure of assets that are characterized by the credit risk, in favor of the portfolio of loans to legal entities and individuals, which ensured a higher return on the Bank's assets. During the year, there was a decrease in funds placed in other banks and investments in securities from UAH 26.1 billion in hryvnia equivalent, or 45.3% of assets that have credit risk, to UAH 23.8 billion in hryvnia equivalent, or 34.7% of assets that have credit risk, which corresponds to the medium-term target. Instead, the loan portfolio of legal entities and individuals increased by 39.8%, or UAH 12.5 billion, in hryvnia equivalent, from UAH 31.4 billion to UAH 43.9 billion, both values in hryvnia equivalent. The factors of such a rapid growth were: for the portfolio of loans granted to legal entities, the pent-up demand for investment lending, which was realized at the time of the exit from the crisis of the Covid-19 pandemic, and an increase in the need for working capital financing, as a result of a significant increase in the cost of production, the indicator of producer inflation exceeded 60% in 2021, as well as the rise in prices and elongation of logistics chains; for the portfolio of loans granted to individuals, the high growth rate of private consumption in the context of an increase in nominal incomes of the population by 20% in 2021.

The share of the corporate business loan portfolio increased to 72% of the Bank's loan portfolio during the year, but the portfolio structure, especially in foreign currency, has a clear seasonal dependence characteristic of agricultural products trading, especially against the background of the record harvest of 21/22 marketing year, so in the medium term, the share is expected to decrease to the target level of 70%. The credit quality of the portfolio of loans provided to corporate customers continues to improve: non-problematic debt has crossed the mark of 95% of the loan portfolio, more than 80% of which, in turn, have a rating of "better" or at the level of "7" on the 9-point rating scale (respectively, more than 90% with a rating of "1-7" on the 10-point scale of credit risk assessment of the NBU). More than 99% of non-problematic debt is serviced by corporate borrowers in accordance with the schedules agreed by loan agreements without allowing the facts of debt delay of more than 7 days. The share of stage 2 in accordance with International Financial Reporting Standards (IFRS), i.e. loans with signs of impaired creditworthiness or signs of potentially problem debt, according to the early response and monitoring system for 2021 decreased to about 2%.

The credit non-problematic portfolio of a corporate business is sufficiently diversified in terms of risk concentration of one counterparty, a group of related counterparties. The debt of the Bank's 20 largest groups of related counterparties – borrowers of the Bank is 35% as of the end of 2020, having decreased by 4 percentage points during the year. The indicator of "large loans", the debt of the group of related counterparties exceeding 10% of the Bank's regulatory capital, the NBU's N8 credit risk ratio as of the end of the reporting period is less than 22% with a maximum regulatory value of no more than 800%. In fact, only two debts exceeded 10% of the Bank's regulatory capital.

Taking into account the industry structure of the corporate loan portfolio, the share of loans granted to trade enterprises decreased to about 36%, while the redistribution occurred in the production sector, the share of which increased to almost 24% . The agricultural sector is actively developing, the share of which has slightly decreased to 15%. Herewith, the share of industries that are characterized by the greatest volatility and tendency to the change of business cycles, namely construction, real estate operations, mining and metallurgy, does not exceed 10% of the portfolio. These sectors of the economy continue to be among the industries whose lending volume has certain restrictions in the Bank's credit policy.

During the year, there were changes in the share of foreign currency debt, which increased to almost 40% in the loan portfolio of non-problematic corporate businesses, caused by seasonal factors of trade in agricultural products against the background of a record harvest in 2021 and still high values of products in international markets, on the one hand, and existing logistical problems in the Ukrainian and international markets, on the other. The Bank controls and limits the amount of debt in foreign currency in respect of borrowers who do not have enough foreign currency earnings to service the debt in foreign currency.

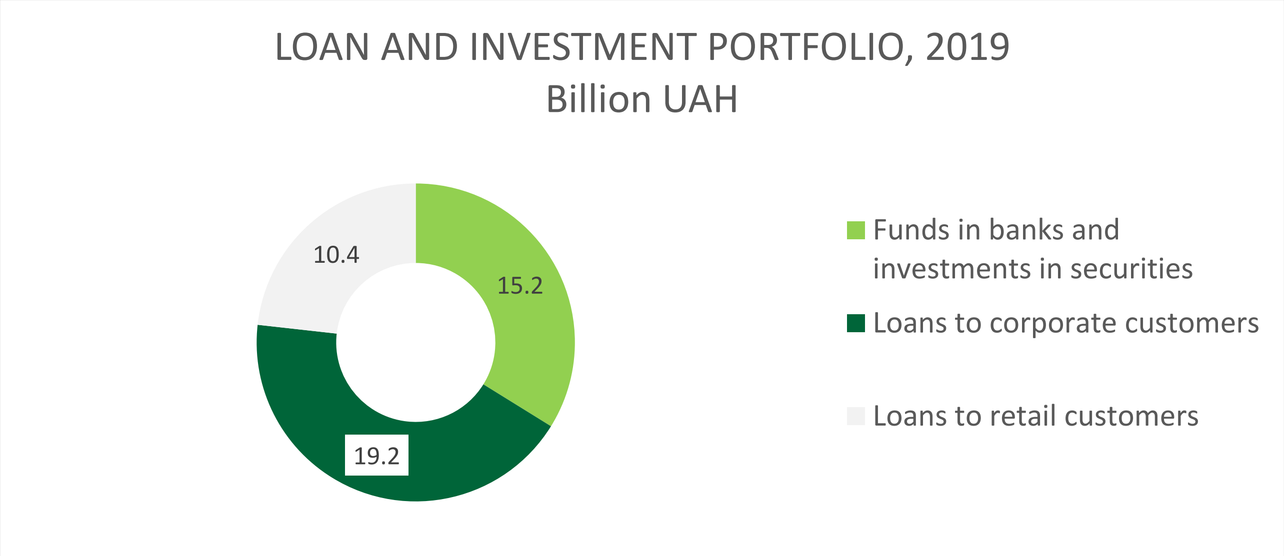
The adaptation to the new conditions of functioning of the economy in the post-pandemic period, gradual achievement of a balance of supply and demand, normalization of logistics chains improve the assessment of the macroeconomic situation for 2022 and lead, as of the end of 2021, to the stabilization of expected losses from the occurrence of credit risk events to about 2% of non-problematic debt on corporate customers' loans. Most of the expected losses are generated under Stage 1 in accordance with IFRS. The problem credit debt of corporate customers is covered by reserves by 50-55%, which corresponds to historical indicators for the settlement of problem debt at the level of 40-45% of the debt amount.

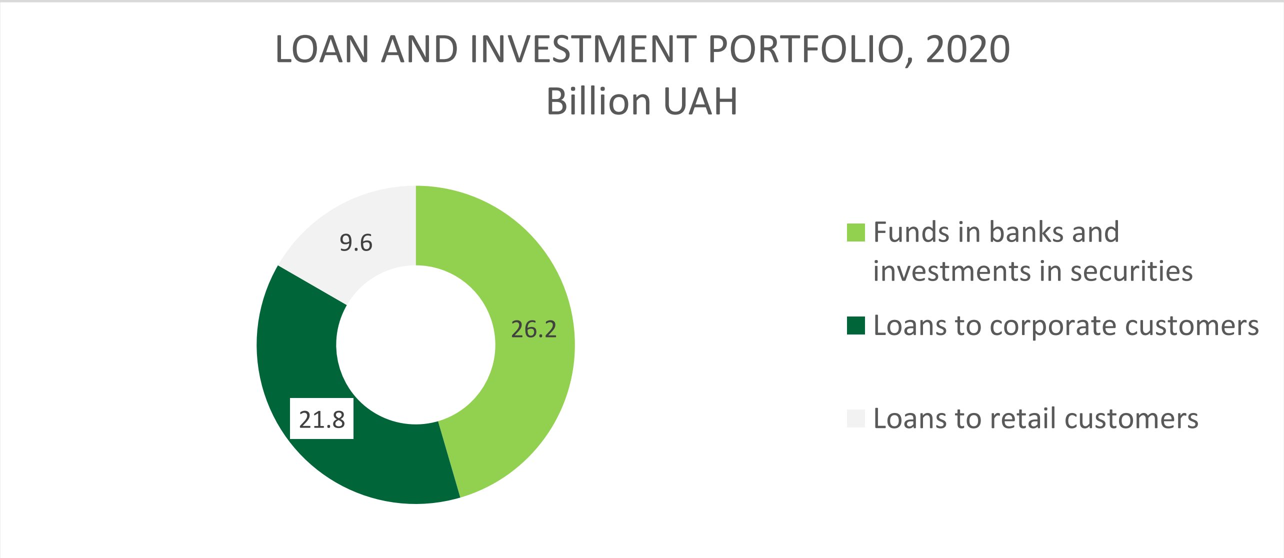
The portfolio of new consumer loans for retail businesses grew during the year due to the recovery in economic activity and the solvency of the population, supported by further growth in nominal and real incomes. The introduction of lockdowns in the first half of 2021 led to a further decrease in the share of consumer loans at selling points to a little more than 30% of the portfolio. The quality of the consumer loan portfolio at selling points improved significantly in 2021, with credit loss provisions to cover credit risk losses decreased to almost 2% of the average annual portfolio volume. The credit limits on cards continued to grow, as of the end of 2020, 35% of the consumer loan portfolio was made up of credit limit balances on cards, in which the share of non-performing loans does not exceed 4% of the portfolio as of the end of 2021. The share of the cash loan portfolio has grown rapidly to 26% of the portfolio volume, the quality of which remains at a high level – the share of problem debt is decreasing and approaching 1% of its volume. The volume of auto loans was relatively stable during the year and amounted to 8% of the consumer loan portfolio. At the same time, the quality of the new portfolio was at a very high level: the car loan portfolio remains the least sensitive to the negative consequences of the pandemic.

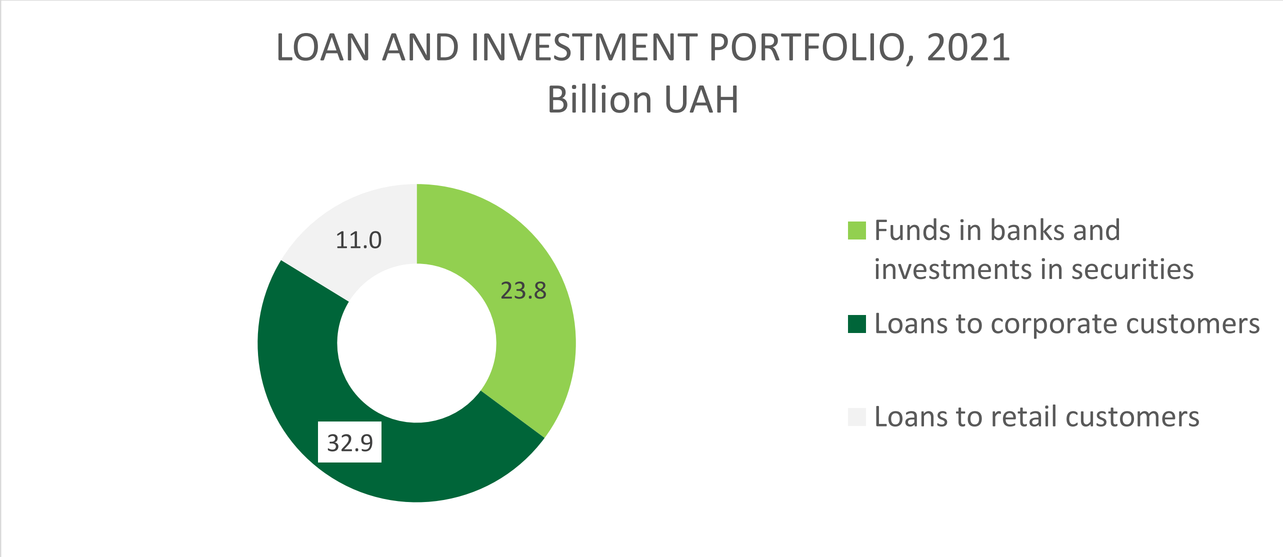
The risk management division continuously analyzes early, medium-term and final risk indicators in the context of all segments and products of retail business lending. The compliance of indicators with targets, detection of deviations and correction are monitored on a weekly and monthly bases. The methods of customer segmentation and risk acceptance are constantly reviewed and improved, the resolution of models and rules is increased, and the methods for verifying and assessing creditworthiness are improved.

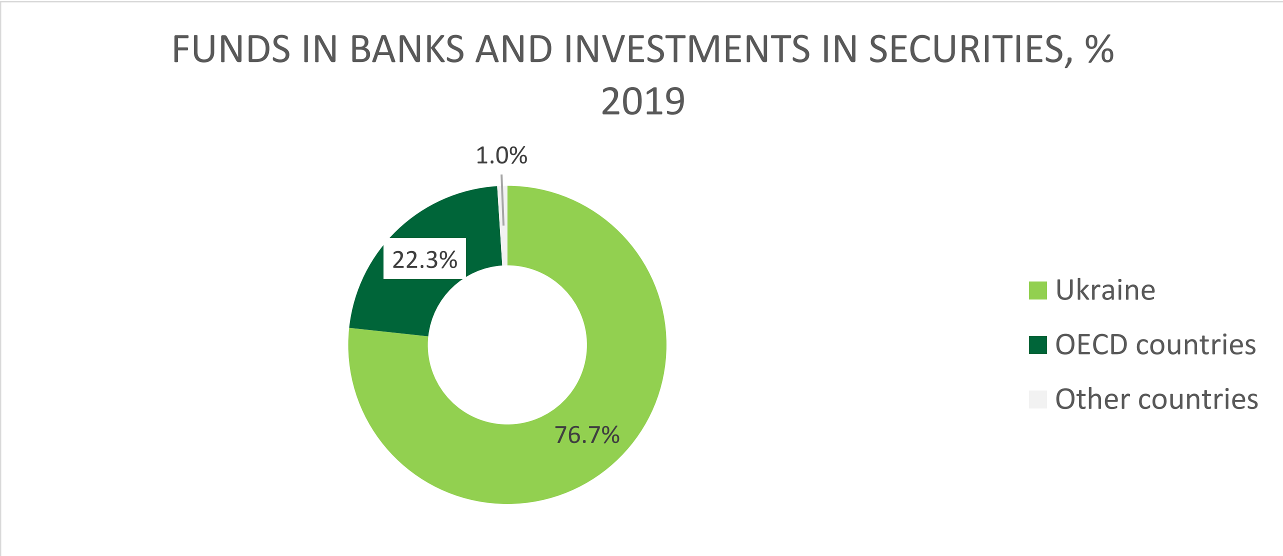
The Bank continued to reduce the volume of problem and potentially problem loan debt. During the year, the share of problem debt decreased to below 7%. In the corporate business segment, debt restructuring prevailed as a settlement tool, while in small and medium businesses and the retail business segment, claims activities prevailed.

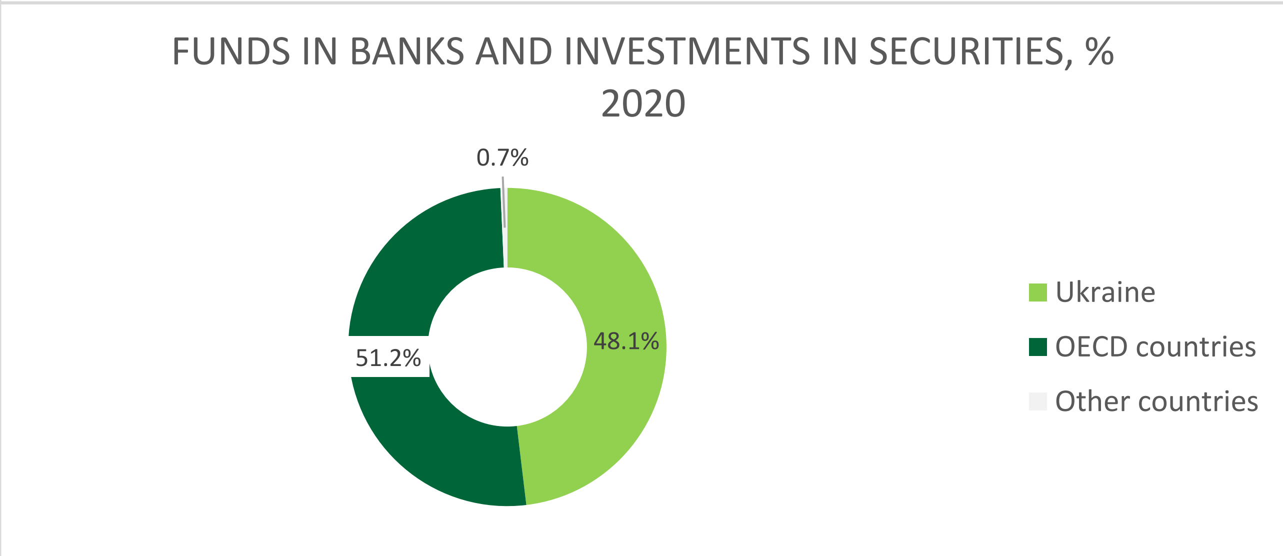
The deductions to reserves to cover credit risks at the end of the year amounted to about 2% of the loan portfolio during the year, 80% of which were deductions to reserves for expected losses from the implementation of credit risk from non-problematic debt, stage 1 and stage 2 in accordance with International Financial Reporting Standards.

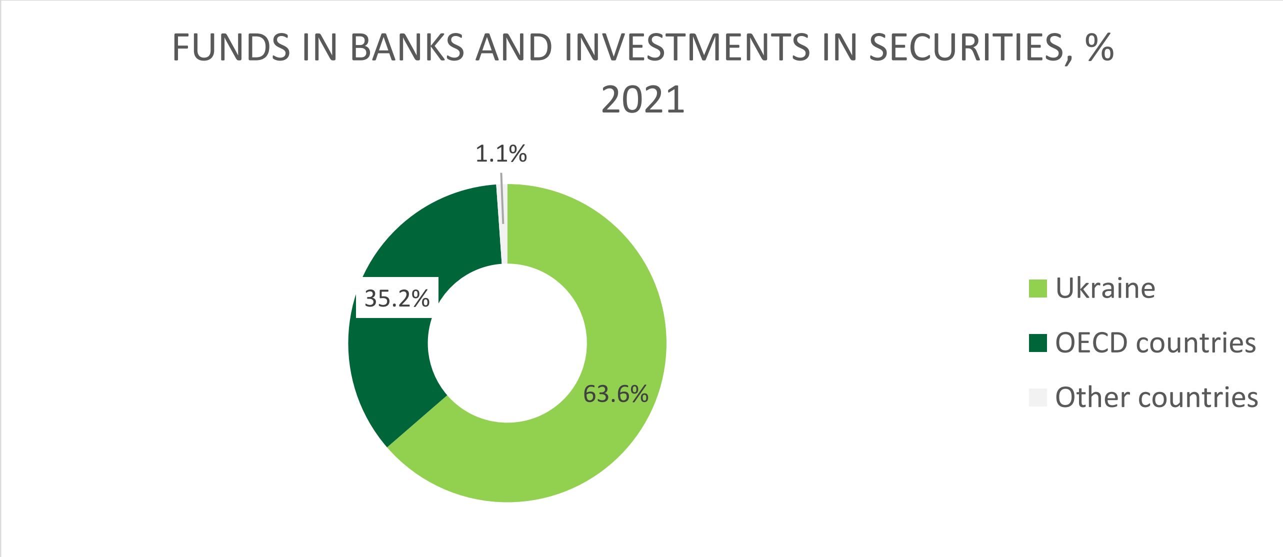


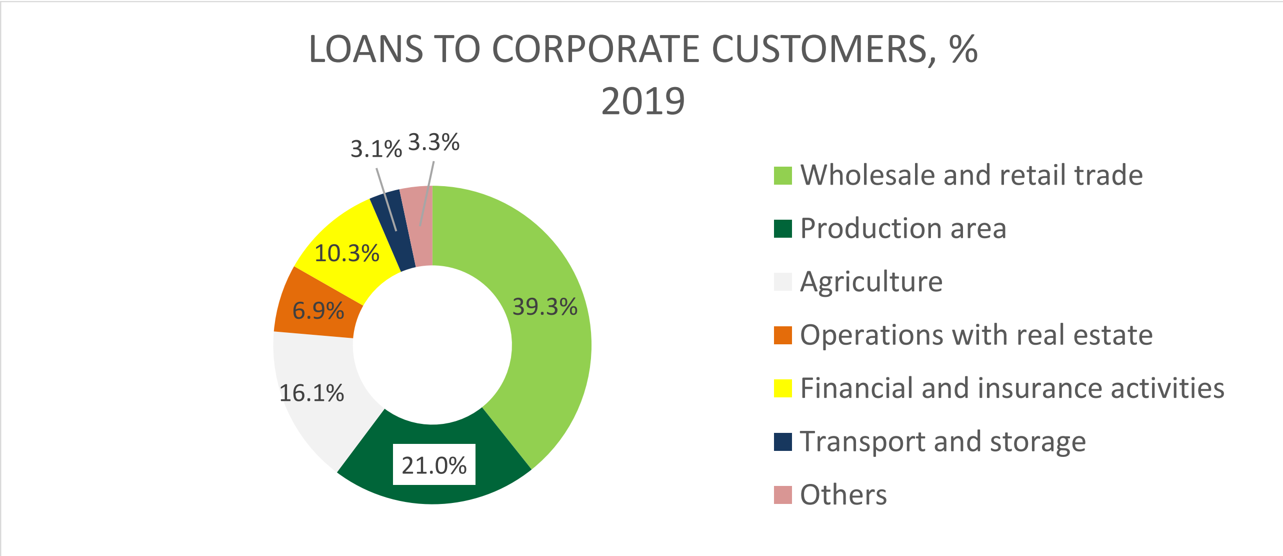


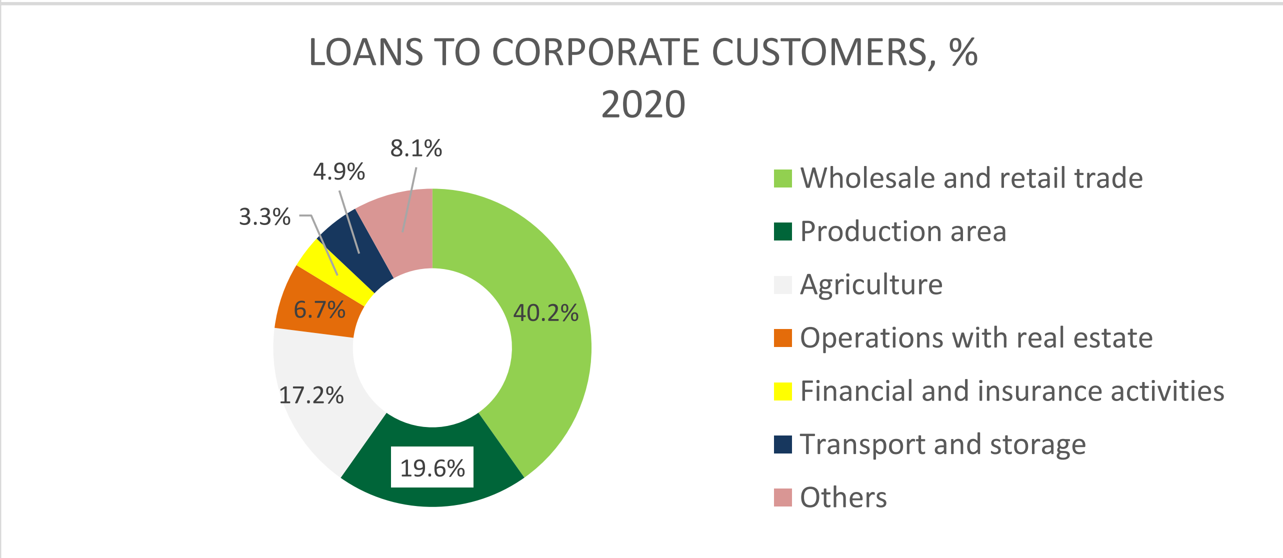

LOAN AND INVESTMENT PORTFOLIO, 2021
Billion UAH
11.0
23.8
32.9
Funds in banks and investments in securities
Loans to corporate customers
Loans to retail customers

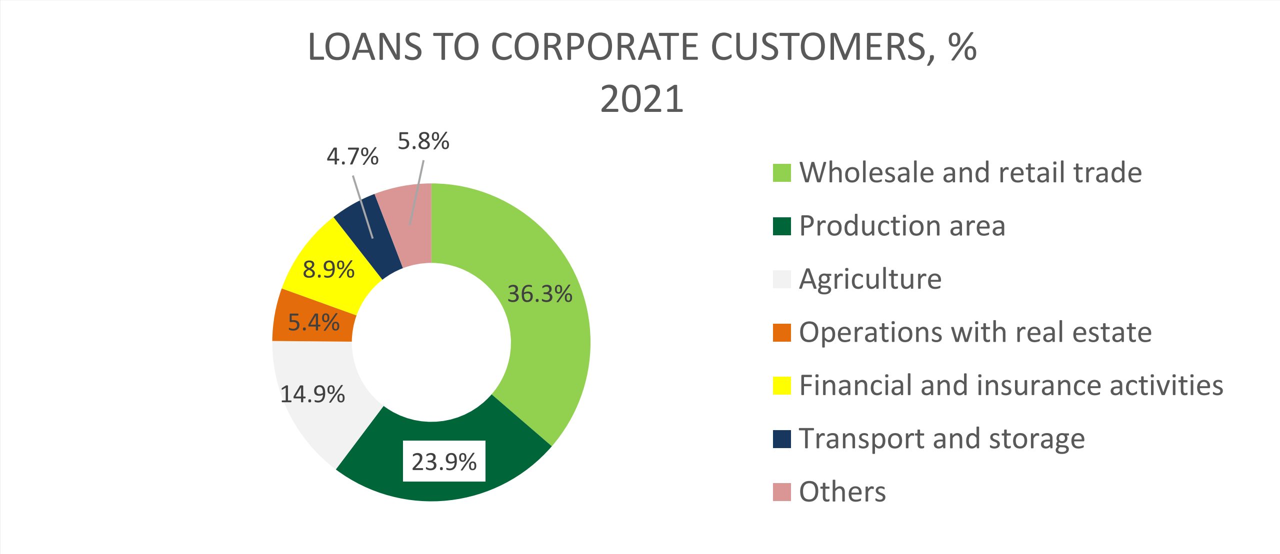

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2019
1.0%
22.3%
76.7%
Ukraine
OECD countries
Other countries


FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2020
0.7%
51.2%
48.1%
Ukraine
OECD countries
Other countries

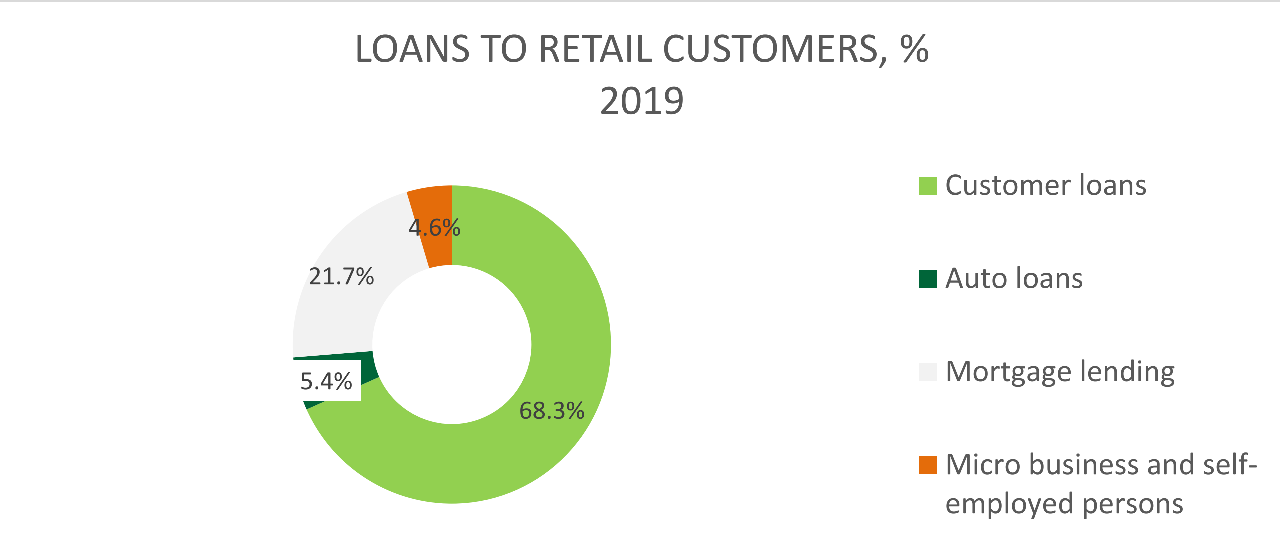

FUNDS IN BANKS AND INVESTMENTS IN SECURITIES, %
2021
1.1%
35.2%
63.6%
Ukraine
OECD countries
Other countries


LOANS TO CORPORATE CUSTOMERS, %
2019
3.1%
3.3%
10.3%
6.9%
39.3%
16.1%
21.0%
Wholesale and retail trade
Production area
Agriculture
Operations with real estate
Financial and insurance activities
Transport and storage
Others

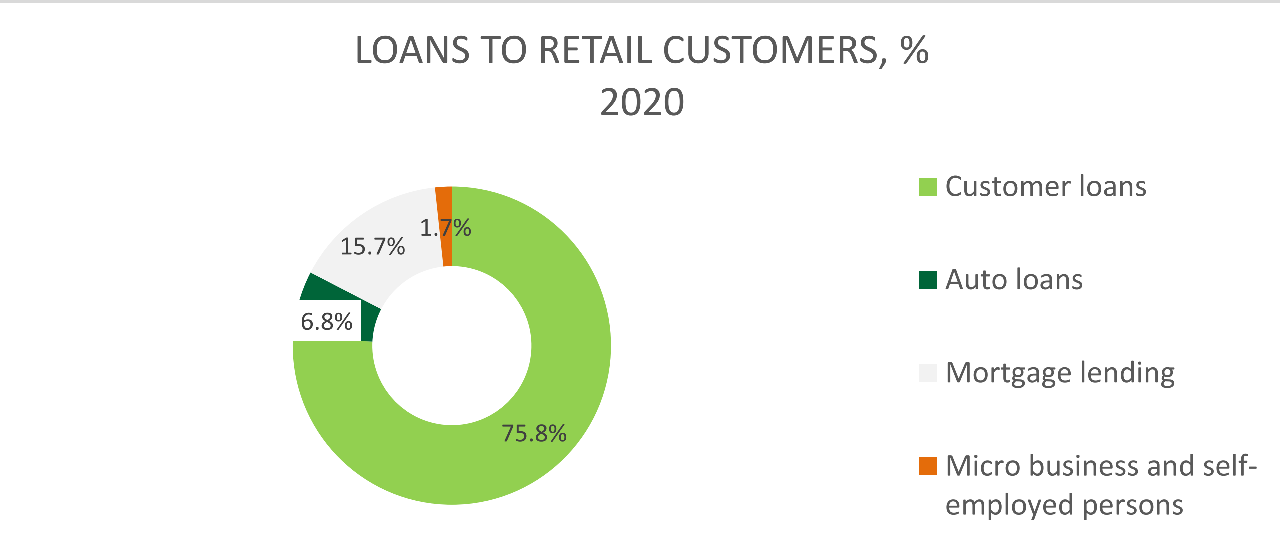

LOANS TO CORPORATE CUSTOMERS, %
2020
8.1%
4.9%
3.3%
6.7%
40.2%
17.2%
19.6%
Wholesale and retail trade
Production area
Agriculture
Operations with real estate
Financial and insurance activities
Transport and storage
Others



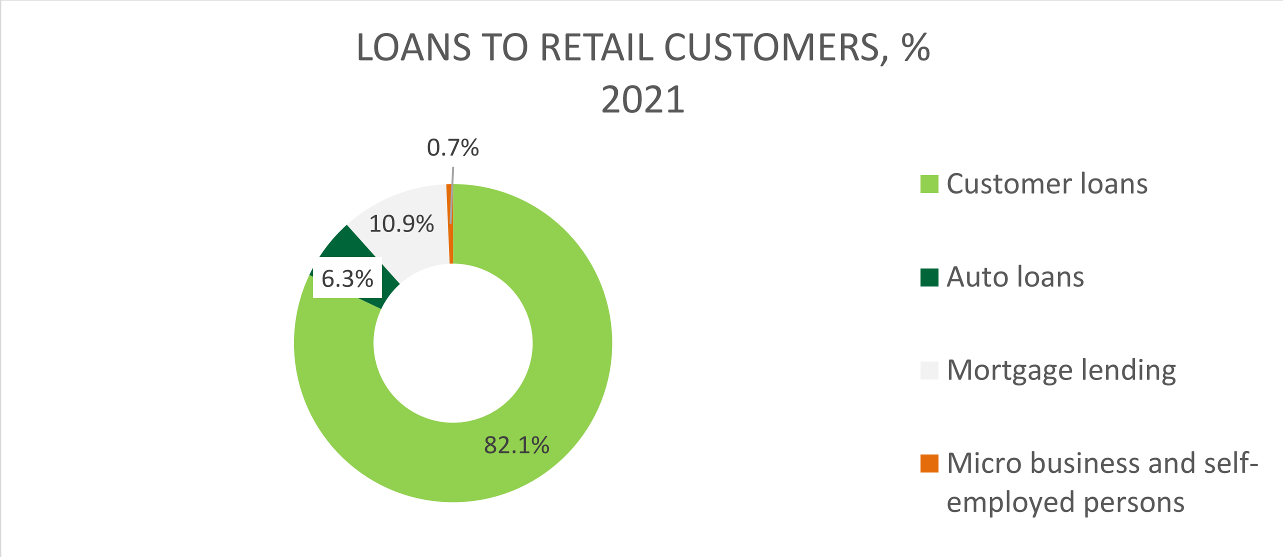
LOANS TO CORPORATE CUSTOMERS, %
2021
4.7%
5.8%
8.9%
36.3%
5.4%
14.9%
23.9%
Wholesale and retail trade
Production area
Agriculture
Operations with real estate
Financial and insurance activities
Transport and storage
Others



LOANS TO RETAIL CUSTOMERS, %
2019
4.6%
21.7%
5.4%
68.3%
Customer loans
Auto loans
Mortgage lending
Micro business and self-employed persons



LOANS TO RETAIL CUSTOMERS, %
2020
1.7%
15.7%
6.8%
75.8%
Customer loans
Auto loans
Mortgage lending
Micro business and self-employed persons



Managing the Liquidity Risk and Market Risks

Liquidity Risk - 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 financial resources allocations, and changes in market conditions that affect the cost and possibility of selling the existing financial assets on the market in a short time.

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

The liquidity risk management takes place on three time horizons. The operational level provides for the 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 standards and internal short-term liquidity adequacy indicators.

The 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 three-month forecasts of business lines' needs for the volume of growth of the portfolio of financial assets in case of the normal course of business activity. Short-term liquidity management through internal liquidity limits enables risk management units 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 the short-term liquidity is played by behavior patterns of customer account balances, which are used to determine the expected amount of deposit outflows at different times during a calendar year. To manage the liquidity, constant monitoring and analysis of the product structure of the Bank's financial liabilities, the volume of funds raised and repaid and their value, as well as the concentration of deposits by residual terms to their repayment and groups of related counterparties are carried out. The results of the analysis affect decisions regarding changes in the structure of the portfolio of highly liquid assets.

The liquidity management is completed at the medium- and long-term liquidity management level. The Asset and Liability Management Committee approves the Bank's Financing Program annually, which determines the priorities of the credit and investment strategy and methods of its financing. In addition, the Bank's financial markets and market position are regularly analyzed, as well as indicators of early response to the onset of the liquidity crisis and indicators of the need to implement a Reactivation 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 the liquidity crisis.

The Bank holds a reserve of liquid assets in foreign currencies, 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 the outflow of client money denominated in foreign currencies.

During 2021, the Bank continued to hold a sufficient margin of excess of short-term assets over the bank's liabilities, ensuring that the LCR indicator reaches more than 160% in all currencies, and (on the horizon of 1 year) the NSFR indicator reaches more than 130% in all currencies. The Bank's deposit portfolio remains sufficiently diversified, with the share of the Bank's 10 largest depositors (groups of related depositors) not exceeding 20%, with a concentration slightly higher than this indicator only for customer fund balances in Euro.

Interest Rate Risks in the Banking Book (IRRBB) - the probability of losses or additional losses, or shortfalls in planned income due to the impact of adverse changes in interest rates on the banking book.

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

Interest rate risks management in the banking 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. Regarding the interest rate risks in the banking book, 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 according to six short-term and long-term scenarios.

As of the end of 2021, the impact of changes in interest rates on the bank's net interest income over the horizon of one year is UAH 142.4 million, or 3.4% of the planned net interest income, subject to a shock increase in rates for up to six months and a simultaneous drop in rates on other terms for hryvnia and a drop in rates for all terms for foreign currencies. The maximum change in the economic cost of capital reaches UAH 1,068.4 million, or 10.3% of the Bank's regulatory capital, as of the end of 2021, 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 change in foreign exchange rates, interest rates and the value of financial instruments.

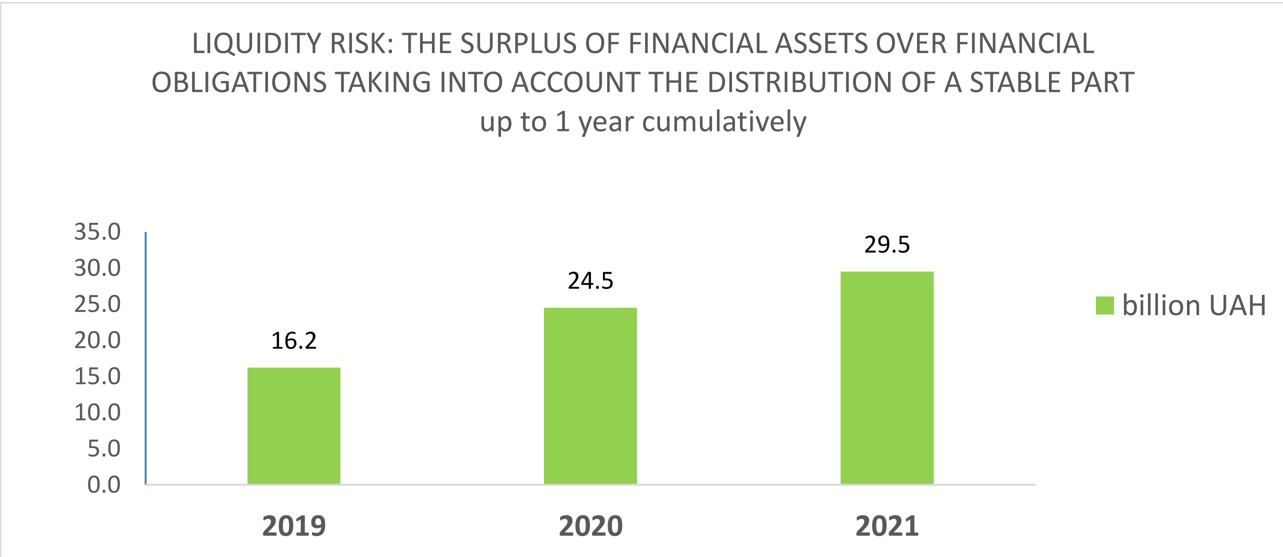
Market risk management is carried out both for the trading book (assets and liabilities that are traded in order to profit from short-term fluctuations in the value of these assets and liabilities and trading book hedging instruments) and for the banking book (assets and liabilities that are not included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

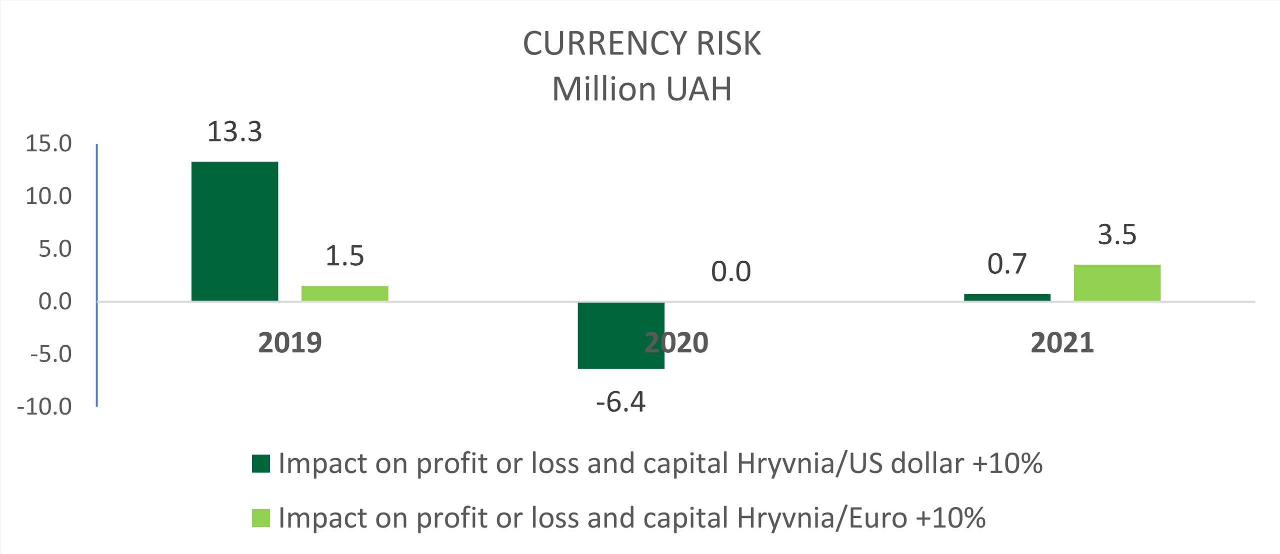
The highest collegial body of the Bank that manages the market risk is the Asset and Liability Management Committee, which was established in accordance with the decision of the Bank's Supervisory Board.

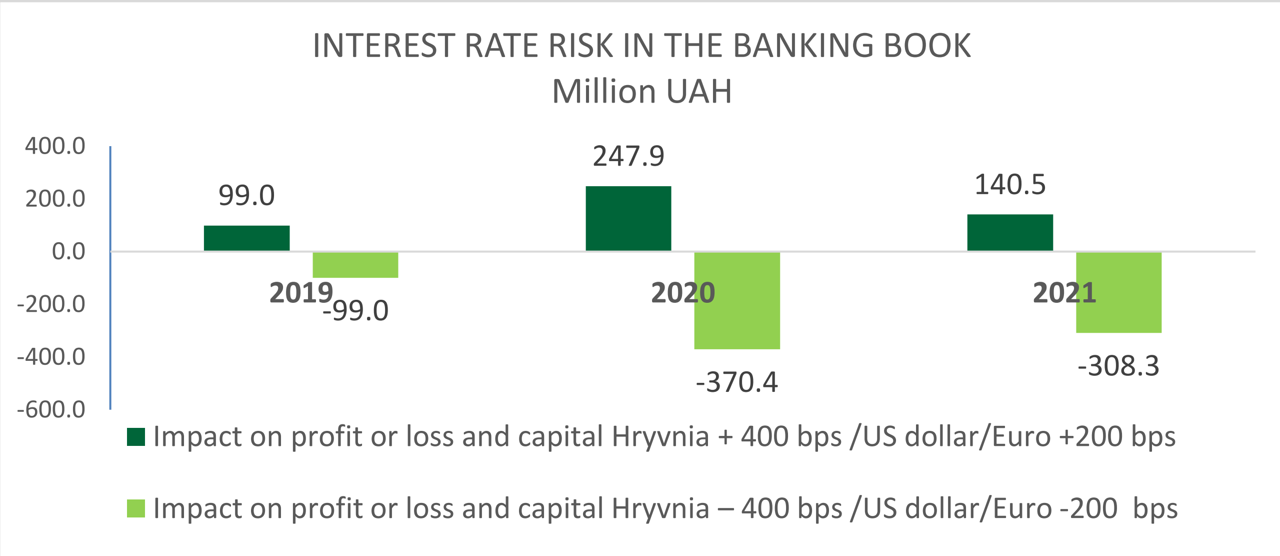
Market risk management is carried out at the level of trading and banking books. The trading book has limits that take into account the sensitivity of the value of financial instruments in the portfolio to changes in market prices. For this purpose, BPV metrics, VaR limits, and "Stop Loss" type limits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

OTP Group has set a zero tolerance for currency risk (the maximum position limit is +/- 5 million US dollars), so the Bank avoids an open currency position in the banking book. During 2021, the size of the open currency position was determined by the Bank's treasury operations in the trading book within the limits set by the National Bank of Ukraine as of the end of 2020, not more than 10% of the regulatory capital, but not more than UAH 500 million. As of the end of 2020, the open currency position in the trading book was close to 0. The one-day VaR limit on transactions in foreign currencies, set at the level of UAH 24.9 million, was actually unused.

Regarding other market risks, the risk of changes in interest rates on securities in the Bank's trading book, the one-day VaR limit set at UAH 15.2 million, was used for UAH 1.4 million, with a trading portfolio of UAH 755 million, which was the result of holding short-term securities in the portfolio.







Operational Risk Management

Operational Risk - 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 characteristic for any activity, so it is impossible to avoid it completely. Operational risk management aims to minimize the impact of operational risk events through the application of appropriate response measures, minimize the likelihood of operational risk events through the introduction of an internal control system and transfer/distribution of risk through insurance tools and outsourcing processes.

The Bank's internal control system is based on the division of functions of the Bank's branches into the first line of defense, which includes all business units and support/support units, the second line of defense, that is, control, which includes risk management units and compliance units, and the third line – an internal audit. The focus systems of the Bank's internal controls and resource allocation are determined primarily by the process of regularly collecting information on operational risk events, analyzing cause-and-effect dependencies, 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 selfassessment process, which helps to identify those components of the Bank's processes that are most prone to manifestation of the operational risk events. The result of the analysis is taken into account when establishing indicators of tolerance to losses as a result of implementation of operational risk events, namely, in the calculation of the maximum amount of losses, which is accepted by the Bank as part of the functioning of the 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. On the other hand, stress testing of operational risk events uses the accumulated experience and modeling process to assess the likely impact of adverse scenarios that occur infrequently, but the effect of which is very significant. Each year, in accordance with the expanded measurement approach, the Bank calculates the amount of capital required to cover losses from the occurrence of operational risk events.

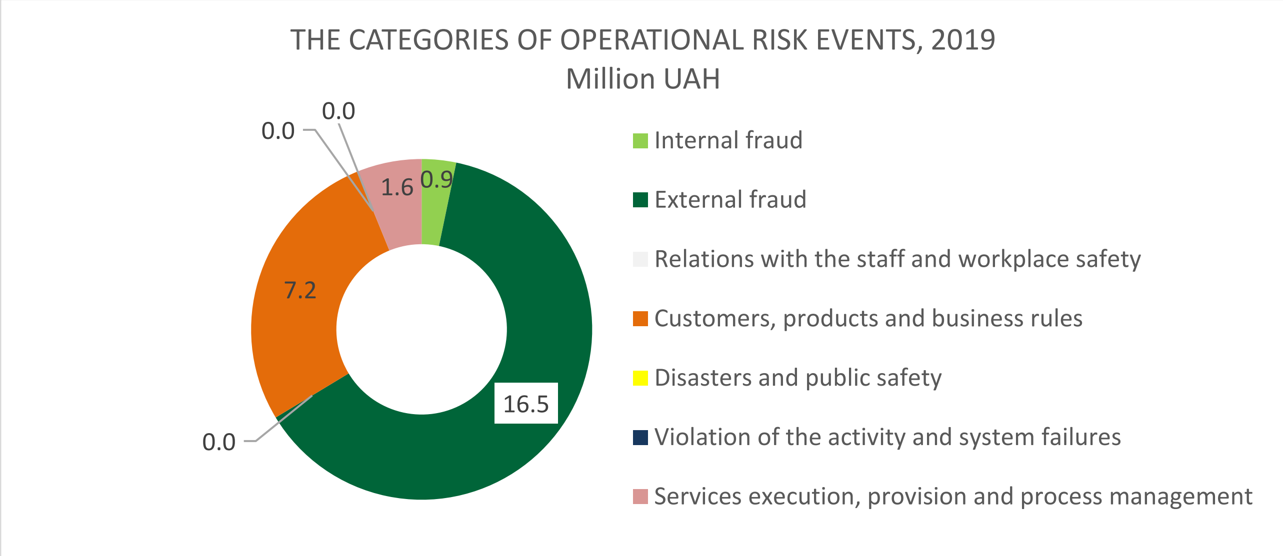
For the smooth functioning of the Bank in the event of emergency, the Bank has developed a Plan to ensure the continuous operation of the Head Office and Plans to reactivate its branches. The business continuity plan developed as a whole for the Bank's Head Office provides for the possibility of reactivation 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. The plans of reactivation of the branches provide for the possibility of resuming the activities of a separate critical branch 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 reactivation.

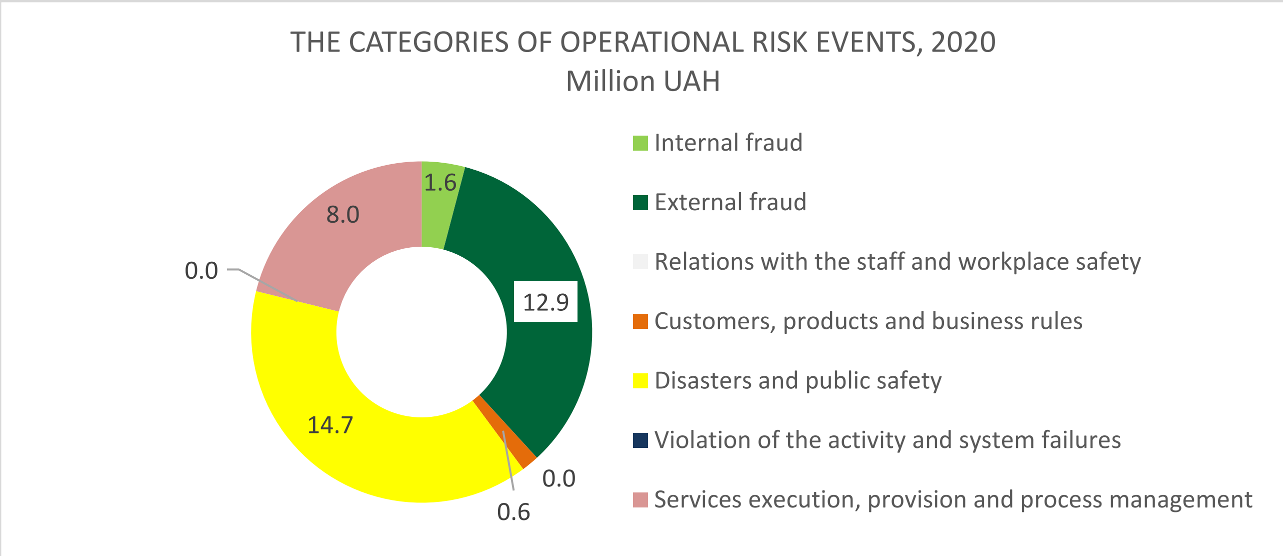
When outsourcing banking processes, the Bank continues to monitor the risks of these processes by determining the quality and timeliness criteria for providing services by the outsourcing provider, collecting information on operational risk events, analyzing plans for resuming the outsourcer's activities,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

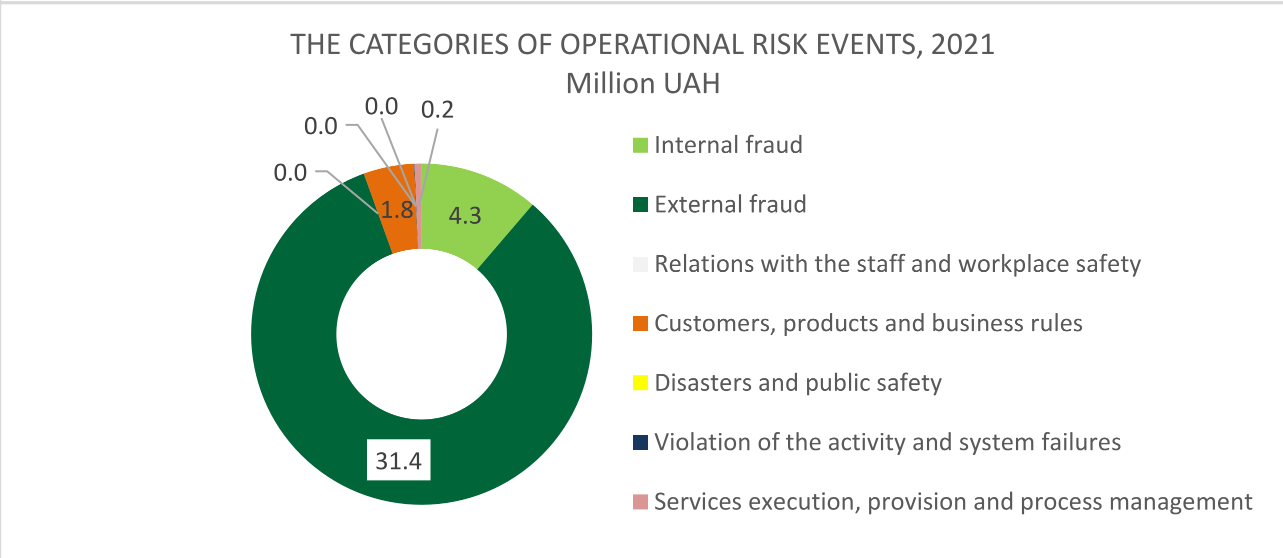
Operational risk is the residual risk resulting from the application of risk minimization measures within the internal control system. Risk limits are distributed between business lines and categories of types of operational risk events and are set as a percentage of operating income or in absolute terms.

The net effect of losses from operational risk events that were identified in 2021 remained unchanged at about UAH 38 million. However, the structure of losses has changed significantly: more than 80% of losses are events of external fraud on obligations under loans issued by the Bank and card transactions, mainly due to the use of social engineering elements by fraudsters.

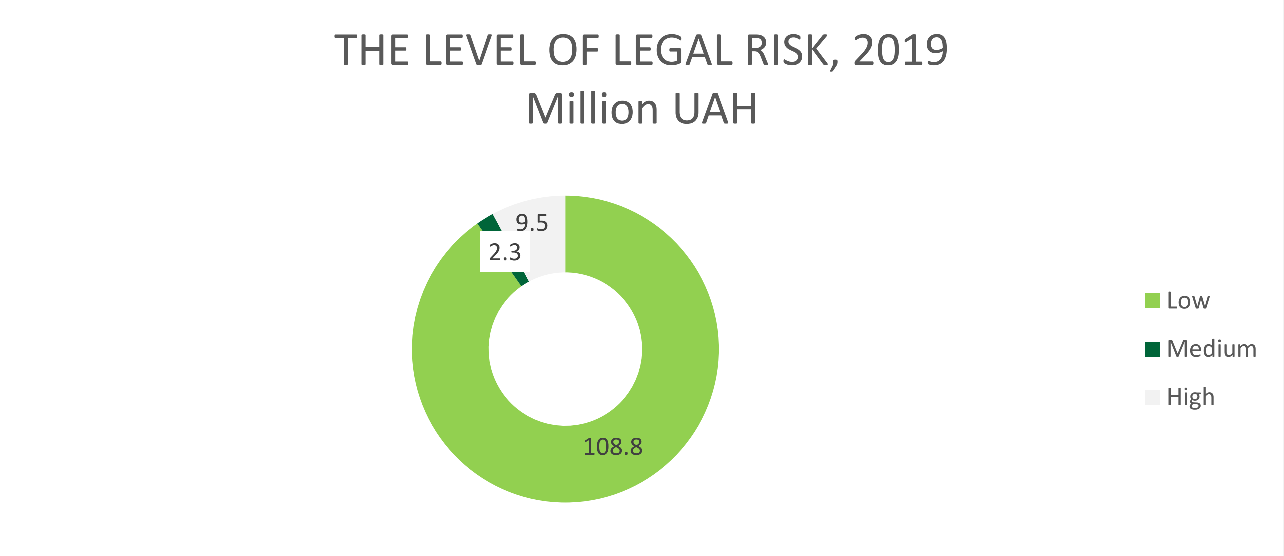
The Bank has completed calculations of capital requirements to cover operational risks, which Ukrainian banks will be required to calculate from 2022 as a ratio of 15% of the sum of three components: the component of net interest income/expenses and dividends, the service component, and the financial component. The capital requirements to cover operational risks for 2021 amount to UAH 1,040 million, almost 10% of the Bank's regulatory capital as of the end of 2021, but during 2022 only 50% of this requirement will be taken into account in the Bank's capital calculations.

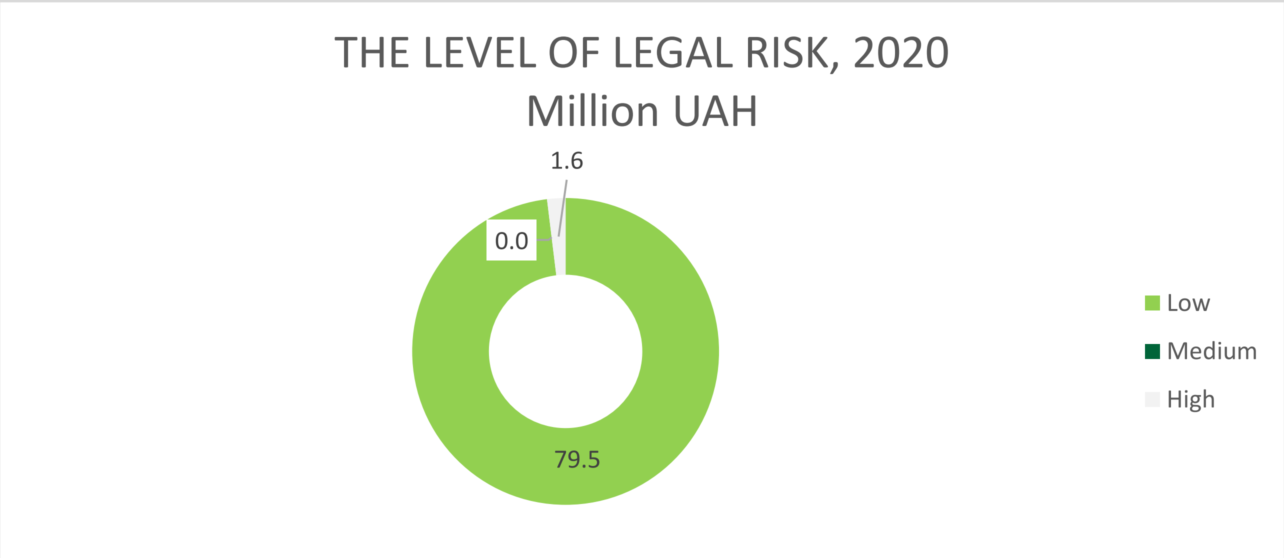


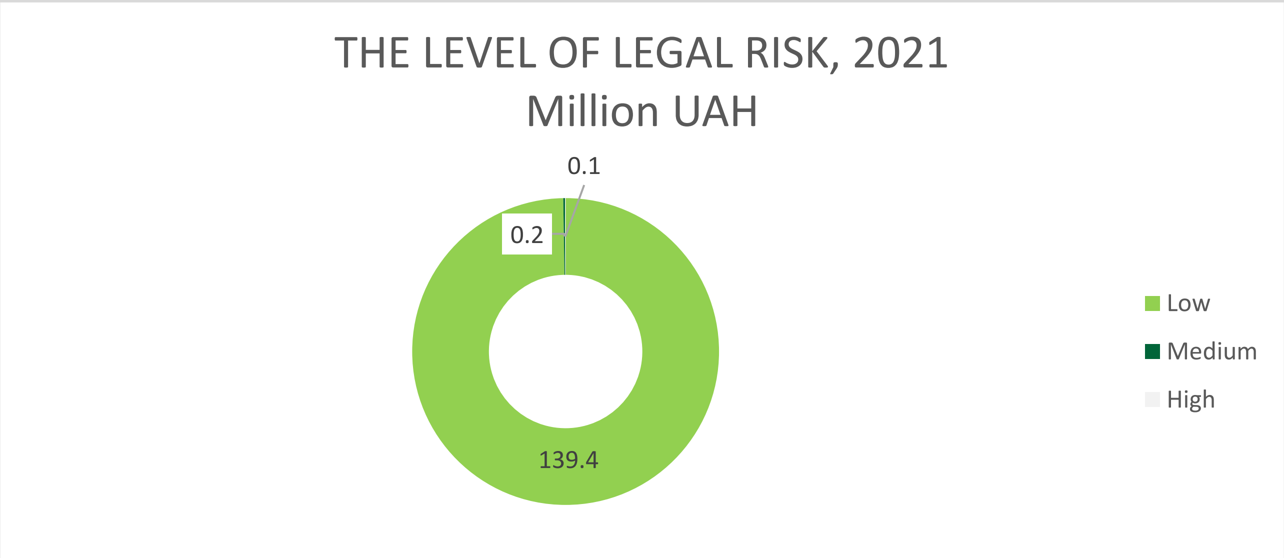




Legal risk management as a part of operational risk occurs through the distribution of the size of the portfolio of material lawsuits into categories from low to high risk – depending on the stage of claims work and the availability of decisions in favor of the Bank, while reserves are created for the entire size of the portfolio, which is assigned a high level of risk. During 2021, the Bank increased the total amount of legal risk for claims in which the Bank is a defendant by 72%, while the structure continues to be dominated by low-risk claims.







ACHIEVEMENTS OF THE CORPORATE BUSINESS LINE

OTP Bank's corporate business provides a full range of banking services according to the highest European standards, constantly expanding its product line and improving processes to maximize the coverage of corporate clients' needs in the most convenient way for them.
The Bank works with all segments of legal entities – from small enterprises to large local and international corporations, and there are individual solutions and offers for each of them.
In addition, the Bank pays much attention to synergy from cooperation with various customer segments within the Bank and OTP group, offering unique solutions on the market, partnership programs and building long-term business relations.

Lending

OTP Bank entered 2021 as well adapted to the new environment, with an understanding of new challenges and skills in managing processes in "remote work conditions". This, together with the well-coordinated work of the team and the rapid development of corporate business, allowed OTP Bank to maintain its leading position in financing legal entities and supporting the national economy: over the past year, the loan portfolio to corporate business grew by 44% and amounted to UAH 29.8 billion. Such a sharp increase was made possible, as last year the Bank managed to conclude new loan agreements with legal entities for UAH 17 billion, which exceeded the volume of the previous year by almost 70%. Also, as a result of successful implementation of the three-year corporate strategy, the number of companies that used OTP Bank financing in their business activities increased by 23%. The number of active corporate clients increased by 2 thousand legal entities.

In addition to providing corporate clients, small and medium businesses with a wide range of financial products, including overdrafts, revolving credit lines, medium-term loans and large investment loans, OTP Bank executed a number of individual loan agreements in 2021, including refinancing and using various trade finance instruments.

Agribusiness

In 2021, OTP Bank continued its cooperation with companies from all key sectors of the domestic economy. At the same time, the Bank provided the largest amount of loans to support the Ukrainian agribusiness, namely, more than 40% of the total amount of new contracts. Our borrowers have successfully used the funds for sowing and harvesting campaigns, trading activities, as well as for supporting large investment projects.

To finance not only large agricultural companies, but also the enterprises of all segments, including SMEs and even farmers, OTP Bank continued to develop OTP Agrofabrika, which is a unique solution in the banking market of Ukraine and a special scoring product created in cooperation with the International Finance Corporation. As a specialized project, OTP Agrofabrika provides farmers with all types of loans and a variety of partner programs that allow them to finance future sowing at a rate of 0.01% per annum for up to six months, for example, for the purchase of seeds, crop protection, chemicals and fertilizers. At the same time, this flagship project for the Ukrainian market offers its clients an exclusive type of collateral, an accelerated decision-making process and loan preparation. Thanks to it, OTP Bank became the first bank in Ukraine to finance small farmers by accepting financial agricultural receipts secured. The goal of this product is to provide farmers who usually lack the standard collateral required by lenders with exclusive access to bank lending.

Among the latest improvements of OTP Agrofabrika is an increase of more than a third of the financing limit for financial agricultural receipts per borrower and the introduction of the loan for the purchase of drones that farmers use to apply fertilizers and plant protection products from the air.
Also last year, OTP Bank started giving loans under state guarantees and became the largest bank with foreign capital in Ukraine, which provided such financing for its customers. Besides, this year the Bank entered the TOP- 10 banks in terms of loan portfolio under the state program "Affordable Loans 5-7-9%", under which it financed about 20% of the total amount of new contracts.

The Bank improves the existing products and processes for its corporate clients on a constant basis, trying to make cooperation with them as efficient and comfortable as possible, and builds long-term and fruitful relations. In particular, in 2021, the remote opening of current accounts and deposits for legal entities, online solutions for issuing loans, and more loyal tariff packages for customers were introduced.

Products
In the corporate business during 2021, OTP Bank also worked hard to provide customers with the best services and products, speed up processes and maximize their digitalization. The greatest improvements were made in conducting currency transactions, opening accounts, payments and deposits.

1. a) foreign exchange transactions
In 2021, OTP Bank optimized the processes of buying and selling foreign currency by legal entities, significantly accelerated the processing of currency transactions and extended the time frame for their implementation. Thus, the Bank offered the best limit for buying and selling foreign currency on the Ukrainian market and increased the time for receiving customer requests and processing them during the same day.

2. b) opening an account of legal entities in 10 minutes

3. To ensure maximum comfort when opening the first account by the client online, OTP Bank implemented integration project with the open sources of information for pre-filling in the required information, as well as implemented automatic verification and account opening for legal entities with a simple ownership structure. Making these changes ensured that client accounts were opened within 10 minutes, including receiving banking details and accessing the Client-Bank system.

4. c) deposit tranches
OTP Bank has implemented a fully cross-cutting automatic process for receiving deposit tranches through the Client-Bank system with clear conditions and quick signing of the contract. An electronic agreement for deposit tranche with the bank's electronic signature is always available to the client in a special section in the Client-Bank system.

In 2022, OTP Bank intends to introduce a process of changing data and re-identification through the "Client-Bank" with the request for minimal information, electronic checks, certificates and other agreements.

5. d) payments of large corporate customers
The main technological implementations in this area were:
- processes of uploading and signing up to 5 thousand payment documents in one package and their full processing by the Bank within 30 minutes;
- "prohibitive rights" to delineate an access to a large number of large legal entities – users of the Client-Bank;
- the share of automatic payments increased from 73% in 2020 to more than 90% in 2021, so most transactions of legal entities in the national currency could be processed until 11.00 p.m. every business day.

ACHIEVEMENTS OF THE RETAIL BUSINESS LINE

Market Achievements and Recognition in the Retail Business Segment

OTP Bank is one of the largest domestic banks, a recognized leader in the retail financial sector of the country. 85 branches of the Bank in all regions of Ukraine provide a full range of financial services to almost 1 million active customers – individuals. In particular, it offers one of the widest list of lending offers on the market for all possible needs of individuals, so the Bank positions itself as a "supermarket of loans". In general, the Bank's customers use deposits, current accounts, debit cards, credit cards, cash loans at retail outlets, loans for the purchase of housing and cars.

At the same time, in 2021 OTP Bank expanded its range of retail lending products once again. In February 2021, it joined the state program "Affordable Mortgage 7%" and became the first financial institution to provide a loan under this program. Currently, OTP Bank is actively implementing the Affordable Mortgage 7% program, as well as developing its own mortgage programs to provide customers with the best solutions for purchasing the real estate.

In addition, OTP Bank has added new products to its car loan offer – loans for the purchase of used cars and cash loans for customs clearance of cars with European registration. The latest proposal was developed in cooperation with the All-Ukrainian Public Organization Avto Euro Syla, which was the initiator and main lobbyist for changes in customs and tax legislation regarding preferential customs clearance of cars with European registration.

Another new solution for lending to OTP Bank customers in 2021 was the ability to provide Skybochka payment service in the OTP Credit mobile application without visiting a bank branch. Thanks to it, the Bank's customers can transfer purchases that were previously paid for using credit cards to payments with a corresponding refund for the purchase to the customer's account.

Responding to social requests, OTP Bank, together with Visa, has developed and implemented a comprehensive customer support service of retirement age based on in-depth marketing research. The service includes the issue of a special pension card, round-the-clock support by managers in the chatbot "Lesyk z OTP", as well as medical support (free consultations with a gerontologist, vitamin support or medications, vision checks, etc.).

2021 was the year when electronic public services became widespread, and the program "The Country in the Smartphone", implemented through the mobile application Diia, contributed to large-scale digitalization and availability of many services online. In its turn, OTP Bank has completed the project of integration with Diia application, which makes it possible to use digital documents of Ukrainian citizens to develop legal cases of new customers – individuals, or update the identification data of existing customers – to provide banking services.

As part of the digitalization of OTP, the Bank also transferred payments of pensions and financial assistance to centralized electronic document management in cooperation with the State Pension Fund of Ukraine. This transition ensured the centralization of interaction between the Bank and the Pension Fund, helped to establish electronic interaction with regional branches and avoid the exchange of paper documents for receiving pension deposits. In addition, the use of automatic electronic services and secure information channels accelerated the the procedure for obtaining pensions and strengthened the protection of data transmission.

Together with Mastercard, OTP Bank held car sweepstakes among its customers for the third year in a row as part of "Avtozabava" campaign in support of the tradition of playing out cars for private customers, which emerged in its parent bank in Hungary in 1961. During the 2021 campaign, the Bank played out five Volkswagen T-Rocs and increased the total number of cars played out since the start of the campaign to 15.

Market Achievements and Recognition in the Private Banking Segment

In 2021, Premium banking was focused on:
- developing the customer relations;
- increasing the number of premium areas;
- improving the quality of service in branches without a dedicated manager;
- continuing successful work to expand the geography of brand knowledge and increase the customer loyalty (through unique long-term promotions for premium customers).

So, in 2021, OTP Bank became the leader in the Mass Affluent, Super Affluent and Ultra HNW nominations according to the results of the Euromoney 2021 international financial report.

3,545 meetings were held with premium clients, 1,873 of them outside the bank's offices as part of the project "Strategy for Developing Relations with Premium Customers",.

Premium managers are present in 61% of branches (in 2021, their share increased by 11%). Thanks to successful activities, the premium customer base grew 1.4 times; the share of premium commission income increased, which accounted for 31% of the income of the entire retail business, 46% of the increase in deposits and term deposits of the retail business was made up of deposits of premium customers.

Market Achievements and Recognition in the Private Banking Segment

OTP Bank Ukraine is a traditional leader in providing its customers with the widest investment opportunities in the Ukrainian market, and in 2021 it again proved its flagship role in the Ukrainian banking sector.

As soon as the National Bank of Ukraine adopted a regulation in the summer of 2021 allowing banks to trade on international securities markets, OTP Bank was the only bank that introduced appropriate brokerage services and offered private banking customers the opportunity to buy and sell securities of world-famous brands and ETFs. In such a method, OTP Bank has assumed the role of a broker for its customers.

In the first months after the launch of this service, OTP Bank's private banking customers became shareholders of companies and corporations in various countries, in particular in the United States of America, Great Britain, Europe and Asia. About 300 transactions for the purchase and sale of securities worth more than USD 6 million were concluded.

This is a completely new service for Ukrainians, so initially Private banking aimed not only to provide brokerage services, but also to increase financial literacy, sometimes even to change the way of thinking about money management and the role of Private banking. Therefore, investing in stocks and ETFs on international markets has expanded the portfolio of investment instruments available to OTP Bank's customers, which already included government bonds and Eurobonds, as well as local securities and funds.
In addition to a wide range of investment opportunities, OTP Bank's private banking customers can enjoy many other exceptional services and privileges, including:

* creation and maintenance of venture funds;
* consulting services on foreign accounts;
* organization and conduct of complex international operations;
* operations with precious metals;
* a special deposit program;
* performing operations 24/7 by phone;

* an individual currency conversion rate by cards;
* a free access to all Lounge Keys around the world;
* VIP services: private jet and yacht booking, real estate investment support, private schools around the world.

In 2021, the tradition of holding golf tournaments together with the All-Ukrainian Golf Federation and Mastercard continued, to which private banking customers were invited. In addition, during one of the tournaments, an event on financial literacy was organized for the customers' children together with OTP Capital – the financial game OTP Capitalism.

OTP Bank's private banking development strategy, including investment banking, for 2022 has been drawn up within the framework of OTP Bank's Global Markets Group development strategy. It provides for a single standard of segmentation criteria, product line and services for Private Banking customers, of course, taking into account the peculiarities and culture of local markets. Our common goal is to create the best investment offers based on the analysis of global trends.

New products and services have been already planned for 2022, which will give the group the opportunity to continue to occupy a leading position in investment banking, which is annually confirmed by authoritative international research.

TREASURY ACHIEVEMENTS

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

– We have two strategic goals:
  - to maintain leadership in the provision of financial services, the main value of which is a highly professional expertise;
  - to be the main partner of corporate, retail line customers, premium segment customers, as well as their business.

Despite the crisis in the capital markets caused by COVID-19, Treasury revenues managed to keep at a high level and even outperform last year's results. This is due to a balanced portfolio of services, which includes trading for your own needs and on client requests. The growth was primarily due to a constant increase in the volume of transactions with new and existing customers, an increase in activity as a primary dealer on domestic government loan bonds and a market maker in the Ukrainian securities market.

During the year, OTP Bank was among the TOP-3 in the rating of primary dealers in terms of trading volumes of government bonds in UAH and US dollars on the secondary and primary markets, according to the Ministry of Finance of Ukraine.

In addition to government bonds, OTP Bank actively purchased foreign government loan bonds of Ukraine in US dollar and Euro for its customers, the yield on which varies depending on the maturity, however, in any case, several times higher than the yield of deposits in these currencies and significantly higher than the yield of domestic government loan bonds of Ukraine.

In addition, in the summer of 2021, after certain changes in the NBU's regulatory policy, OTP Bank's Treasury offered the Bank's clients a new type of brokerage services – the purchase and sale of securities on international markets, and therefore the opportunity to invest in shares of world brands and companies included in the S&R500 and Dow-Jones indices.

For leadership, professionalism and breakthrough innovations for the entire market, the national depository of Ukraine, together with PJSC "Settlement Center" and the Professional Association of Participants in the Capital Markets and Derivatives, awarded OTP Bank Treasury last year with the distinction "For expanding the line of new instruments in the capital markets of Ukraine".

THE FUTURE OF THE BANK. DIGITALIZATION AND REMOTE SALES CHANNELS

OTP Bank continues to implement its digitalization strategy, simplify customer service processes, and study and meet the growing needs of customers in solving financial issues.

Last year, OTP Bank improved its remote services and processes primarily to ensure compliance with the updated requirements of the National Bank of Ukraine, internal security and payment systems, as well as to improve the user experience of its customers. Among the most significant innovative changes and implementations for retail customers were the following:
- the ability to get balance statements and payment confirmations from the bank's facsimile in the online app;
- the option to save a reliable mobile device to log in to the mobile app without SMS codes;
- the integration with the Mastercard loyalty platform to make cooperation with customers and the corresponding loyalty program with them as convenient and successful as possible.

In addition, last year the Bank completely updated the ATM network in its branches: first, new recycling ATMs with the function of contactless reading of payment cards or payment card tokens were installed in all branches; second, new ATM functionality was developed for repayment of loans and purchase of currency; third, the ATM network was transferred to a new software and microservice architecture.

In addition, OTP Bank revised the current chatbot solutions and changed the menu structure and workflows to improve the customer experience.

The Bank also continued to develop the newly developed OTP Credit mobile banking app. This mobile application gives the customer the opportunity to perform p2p operations, repay the loan and buy goods in installments, keep a payment calendar, receive reminders about necessary payments, information about further payment of commission, etc. Thanks to this solution, OTP Bank customers can use products and services without visiting branches, which has become crucial in the context of pandemic restrictions. At the end of 2021, the total number of users of the OTP Credit mobile application since its launch on the market in December 2020 exceeded 300 thousand.

CORPORATE MANAGEMENT

To implement 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 has adopted its own Principles (Code) of corporate governance – the document that sets out the attitude of the shareholder and the Bank's management to the main problems of corporate governance and methods of their solution in the Bank.

Bank Shareholder

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 governance 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 reports and is 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 its 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 the shareholder to participate in the management of the Bank is exercised through his/her 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 and regulates 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 gives its comments thereon for consideration by the General Meeting. The Supervisory Board of the Bank establishes committees (Audit Committee, Risk Management Committee and Remuneration Committee) from among the members of the Supervisory Board for preliminary study and preparation for consideration by the Supervisory Board of issues within its competence. At the end of the year, the Supervisory Board reports to the General Meeting on its activities.

The 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 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 activity in which the Bank plans to achieve an advantage over competitors, as well as the Bank's needs for financial, operational, technological and staff 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 Bank's Management Board is responsible for implementing the Bank's development strategy. The Bank's strategy is updated in accordance with changes in market conditions. 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, on a regular basis and at the request of the Supervisory Board. 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 separate financial statements, consolidated financial statements of OTP Bank Group JSC, combined financial statements of the Banking Group and other information on the financial and economic activities of the Bank by the audit firm in accordance with the legislation of Ukraine, including regulatory legal acts of the National Bank of Ukraine, norms and standards of audit approved by the Audit Chamber of Ukraine in accordance with international standards of audit and ethics. Based on the results 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 gives its comments for consideration by the General Meeting of Shareholders of the Bank.

Independent Branches of the Bank

The Bank establishes a permanent risk management department 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 procedures defined by the Supervisory Board. The Bank has also created a permanent compliance control unit (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 arising in the Bank's relations with customers and counterparties 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;
- monitoring for the absence of conflicts of interest between the bank's managers and the subject of evaluation activities on a regular basis;
- 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 management processes distressed assets to the legislation of Ukraine and internal banking 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;
- the 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 compensation and reparations 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 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 through timely identification, measurement, monitoring, control, reporting and providing recommendations for mitigating the 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 subordinates and accountable to to the Bank's Supervisory Board and performs its duties in accordance with internal procedures and current legislation of Ukraine. The effectiveness of the Bank's risk management and compliance system, including evaluating the effectiveness of the internal control system, is periodically checked by the internal audit.

The Chief Compliance Manager ensures coordination of work on compliance risk management issues between the Bank's structural branches, ensures the development and participates in the development of intra-bank documents in the compliance direction. In the event of excessive risks that the Bank may be exposed to, the compliance manager must inform the Bank's Supervisory Board, Risk Management Committee and Management Board 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 shall notify them, unless the Supervisory Board of the Bank has applied measures to ensure their elimination.

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 Duties

One of the fundamental concepts underlying the corporate governance is the concept of fiduciary responsibilities. A fiduciary duty exists where one person, a customer or owner puts special hope or expresses trust in another person (the fiduciary) and relies on him/her, while the fiduciary acts in the interests of this person at his/her own discretion, using his/her own experience. Fiduciary duties 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 the interests of the Bank and its customers and put the Bank's interests above their own. The 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 Interests

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. Bank managers and other employees should avoid a conflict 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 fulfill 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 fulfillment of fiduciary duties. The Head of the Bank must be excluded 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

The transactions made with persons associated with the Bank cannot provide for conditions that are not current market conditions. The process of detecting and identifying the related parties of the Bank, the procedure for making transactions with them, the process of supervising such transactions, 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 the national interests, national security, sovereignty and territorial integrity of Ukraine, counter terrorist activities, as well as prevent violation of the legitimate interests of the 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 units of transactions and counterparties (companies) for which any element of a financial transaction is subject to sanctions / sensitive transactions, after which gives an opinion and assessment of the compliance risk regarding the possibility of such a transaction or establishing business relationships.

The 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 its 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 through which the Bank employees can inform about their significant suspicions, regardless of the internal chain of subordination system. The early information system includes mechanisms to ensure the protection of employees.

Protection of the Rights of Consumers of Financial Services

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 consumer services. The Bank ensures that its employees who have direct or indirect contact with consumers receive appropriate training in consumer protection issues and thus understand and comply with consumer protection rules properly, as well as act with due care and diligence.

In order 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 legislation of Ukraine on consumer protection by the Bank's employees, the Compliance Department constantly monitors the Bank's compliance with 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. Particular attention is paid to compliance with the requirements for interaction with consumers in the process of settling overdue debts in terms of requirements for moral conduct.

Access to Information and Information Protection

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

The Bank's information policy is developed taking into account the Bank's need to protect information with the restricted access (confidential information, commercial and bank secrets). The Bank takes measures to protect information with the 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 customers, as well as taking into account the requirements of the existing regulatory legal acts. The Bank guarantees confidentiality on transactions, accounts and deposits of its customers and correspondents. The information about legal entities and individuals that contains bank secrecy is disclosed in accordance with the current legislation.

The Prevention of Corruption and Illegal Actions
The Bank prohibits any actions aimed at gaining an advantage without the proper right to do so, or securing an illegal advantage in exchange for loyalty. No employee or any other person acting on behalf of the Bank may offer, promise or make a payment, provide any benefits or demand or receive such benefits (including gifts) for the purpose of influencing public or other persons (or which may lead to impact on such persons), or to achieve an unfair business advantage.

Confidentiality
One of the main requirements of confidential relations between the Bank and its customers is the absolute protection of the trade secret and confidential information. The Bank properly preserves bank secrecy and other information regarding the customer's activities and financial condition when providing the Bank's services. The Bank employees must comply with the obligation to ensure confidentiality even after they are transferred to another position or their employment relationship with the Bank has ceased.

The protection and preservation of business, banking information and securities information are provided in accordance with the provisions of the Civil Code, the Criminal Code, the Law of Ukraine "On Banks and Banking Activities", the Law of Ukraine "On Securities and Stock Market", the Law of Ukraine "On Preventing and Countering the Legalization (Laundering) of Proceeds from Crime, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction" and the internal regulatory documents of the Bank.

Bank and Society
The Bank's shareholder and management board are aware of their responsibility to the company to respect the rights of the Bank's customers (consumers of services), strictly comply with all the requirements of the current legislation of Ukraine, and fair competition. The willingness to meet the needs of customers by providing the highest quality services is the main obligation of the Bank to its customers. When making all decisions regarding the Bank's activities, the public importance of the Bank's products and services for different segments of the population will be taken into account. The Bank maintains relations with public and local authorities on the basis of mutual respect, equal partnership, transparency and active cooperation. Depending on its capabilities, the Bank will try to support social, cultural and educational initiatives aimed at developing and improving the lives of citizens. The Bank guarantees the safety and health protection of its employees in the workplace. The Bank's HR management activities will be aimed at ensuring justice and equal opportunities for all employees, and promoting the development of each person.

SOCIAL RESPONSIBILITY

Following the concept of socially responsible business and applying all available forms and methods for its implementation, OTP Bank continued to implement charitable and volunteer initiatives. However, the pandemic and the introduction of strict restrictive measures forced the Bank to cancel many projects in this area for the sake of the safety and health of its own partners, employees and society as a whole. Therefore, the main efforts of the Bank in 2021 were aimed precisely at protecting the employees and customers from COVID-19, which was primarily manifested in the restructuring of business processes, ensuring the remote work of employees and customer service, compliance with security rules in Bank branches, and the introduction of contactless and remote services.

Among the activities held within the framework of the corporate social responsibility in 2021, we should distinguish the following main areas:
Environmental Protection
- In 2021, OTP Bank introduced a green project to collect used batteries, installing special boxes in 22 branches throughout Ukraine, where customers and employees can leave used batteries (double A

and AAA batteries, storage devices, batteries from phones and laptops, tablet batteries of various types). The project is being implemented jointly with the Public Organization "Batteries, Give Up!", which sends the collected batteries throughout Ukraine to the GreenWEEE battery recycling plant in Romania. In total, more than 200 kg of batteries were collected and sent for recycling in 2021.

- As part of the new GO GREEN project, special containers were installed in the Head Office where employees can leave unnecessary paper documents. After filling the containers, the paper is sent for recycling.

The container is full within 14 days.

Financial Literacy

- In 2021, OTP Bank took part in three joint campaigns with the National Bank of Ukraine organized to improve the financial literacy of the population. In particular, the goal of the #Shakhraigoodbye campaign was to teach the Ukrainians the security rules for non-cash and online payments. #ZnaySvoiPrava is an information campaign aimed at improving the citizens' awareness of their rights and obligations when using financial services. #Cashless is an information campaign aimed at popularizing non-cash payments. All three campaigns were implemented on the Bank's official social media pages and YouTube channel.
- During the year, OTP Bank held two centralized master classes on financial literacy for children. So, the excursion was conducted on the territory of Podilskyi Branch of OTP Bank for the pupils of the Business School for Children Miniboss. Also, a stock game "OTP Capitalism" was held for the children of Private banking clients, together with OTP Capital, during which the participants were taught the basics of trading on exchanges in a playful way.

Helping Children

- On the eve of Children's Day, the Bank employees took part in the charity fair. The collected funds were used to purchase a specialized medical equipment — a device for low-intensity laser therapy in ophthalmology LTO-02R for the Special General Education Boarding School No. 5 named after Ya.P. Batiuk.
- In September, OTP Bank joined the charity initiative of the National Bank of Ukraine "Coins for Children", the main purpose of which was to raise funds for the treatment of children with cancer. As part of the promotion, six branches of the Bank accepted coins in denomination of 25 kopiikas that were out of circulation. The equivalent amount collected in the Bank branches was transferred to Tabletochki Charitable Foundation, which has been helping children with cancer for 10 years.
- In December, the Bank, together with Tabletochki Charitable Foundation, implemented a charity project for the employees – the online store "Health Gift Shop". By choosing lots in the store and paying for them, the employees thus made donations to the foundation that cares for the children with cancer.
- On the eve of the winter holidays, a charity fair was held at the Head Office of the Bank, for which funds the sweet gifts were purchased for two children's institutions – the Center for Social and Psychological Rehabilitation of Children in Khmilnytsia village and Special General Education Boarding School No. 5 named after Ya.P. Batiuk. A sand therapy table, mittens and balls for playing Showdown, materials for retrofitting the gym – a gymnastic log and a rope, dining tables for the dining room were also purchased for the establishments. A show of animators was organized for children, and a part of the funds was used to help children in the Charity Foundation Blahomai.

Healthcare

- In November 2021, the Bank held a Donor Day, during which 33 employees donated blood for the needs of the National Institute of Cardiovascular Surgery named after M.M. Amosov. At the end of the campaign, the medical workers presented a gratitude to OTP Bank, and the volunteers presented an exclusive author's poster. In addition, all employees who became donors received special badges of "Blood Agents".

- Since the summer of 2021, the Bank has organized a collective immunization against coronavirus for employees. The vaccination was carried out in several stages, so everyone was able to get vaccinated in two necessary doses.

Sport

- The OTP Group team, consisting of the employees of OTP Bank and OTP Leasing (seven employees), took part in the Banking Futsal League Championship and won the Super Cup.
- A team of three employees of OTP Bank and one employee of OTP Capital took part in the Ukrainian chess championship, taking first place among other teams.
- Three employees of OTP Bank took part in Chornohora Sky Race marathon; seven employees of OTP Bank took part in the bike marathon.
- The OTP Run Club Team (43 employees and two children) took part in the 11th marathon WORK.UA KYIV HALF MARATHON 2021.

Staff training, employees' participation in marathons, as well as uniforms were paid for at the bank's expense. In addition, the employees received cash bonuses from the Bank for prize-winning places.

CORPORATE SOCIAL RESPONSIBILITY

Bonus Systems

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

The basic financial estimation 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 strategic and individual goals achievement;
- individual motivation systems – used for business units 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;
- over-fulfillment of the planned indicators, etc.

Motivational Programs

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

- the award within the framework of the program "Recommend a friend!" for the successful recommendation of friends to open vacancies in the Bank;
- the award for successful mentoring for a new colleague;
- a quarterly presentation of a laptop for attracting the most profitable salary project;

- valuable gifts for participating in annual programs of non-material motivation of employees (for example, in photo contests, rotations, determining the best employees of the bank, anniversaries).

The contribution of each employee does not remain without attention and is necessarily rewarded.

Working Conditions
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 use 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 electronic courses make learning interactive and interesting.

The internal database includes more than 100 electronic courses and tests on processes and products, which were successfully completed by more than 13,000 employees in 2020.

The employees of the departments are constantly learning new products and processes in the format of video seminars: last year, more than 3,000 employees took part in them.

All willing employees can participate in an online program consisting of eight weekly webinars aimed at the development of personal and professional skills.

External Training
OTP Bank 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 on an ongoing basis.

Staff Development
OTP Bank highly appreciates active and highly potential employees and implements and supports programs for their development:

1. B-1 level managers, their successors and B-2 level managers participate in the international development program of OTP Group.
2. B-1 managers receive quarterly training in developing managerial skills and strategic thinking.
3. The participants of internal projects – Agile, Service Design, IT-projects – and those who want to join are eventually trained in a special program with an emphasis on the development of five key competencies.

Everyone can join the business literature readers' club with a monthly discussion of ideas in the circle of Management Board and colleagues.

OTP Bank promotes the development of club culture and supports the creation of communities of interests (running, charity, football, English, playing chess, travelling, etc.).

JOINT STOCK COMPANY
OTP BANK

Separate Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2021

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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 99 of the Bank's Annual Report 2021 and comprise the separate statement of financial position as at 31 December 2021, the separate statement of profit or loss, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 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 Note 3 and Note 25 to the separate financial statements, which describe the current situation in Ukraine in connection with the military aggression of the Russian Federation against Ukraine which started on 24 February 2022 and currently continues with unpredictable consequences. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 25, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were 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 these matters. 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 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. For individually assessed defaulted loans, the Bank applied judgments to estimate fair value of collateral and expected cash flows under a range of scenarios. In addition, the balance of loans and advances to customers represents a significant portion	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 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. 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,

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Key audit matter	How our audit addressed the key audit matter
of total assets of the Bank and is a material to the separate financial statements. Therefore, assessment of expected credit loss on loans and advances to customers was a key area of judgment for the Bank's management. Information on expected credit loss and risk management policies is included in the Notes 3,6 and 24 to the separate financial statements.	loss given defaults, recoveries, macroeconomic indicators, which directly affect the amounts of expected credit loss on loans and advances to customers. For individually assessed loans secured with collateral, using our internal valuation specialists, we assessed the methodology of collateral valuation, assumptions used to estimate its fair value and expected cash flows under a range of scenarios. Also, we analysed the Bank's information about expected credit loss on loans and advances to customers included in the notes to the separate financial statements.

Other information included in the Bank's Annual report and the Bank's Annual Information of the Issuer of Securities for 2021

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 is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

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

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

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

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

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

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

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

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

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

We are required to report if we have identified material misstatements in the Bank's Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's separate financial statements. We have nothing to report in this regard.

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"):

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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 for year 2021 on 10 September 2021 by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is one year.

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 1 August 2022 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 2021, the Bank had the following subsidiaries (all located in Ukraine): LLC "OTP Factoring Ukraine"

- As at 31 December 2021, 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 2021.

- Limited liability company "Ernst & Young Audit Services" (ERDPOU: 33306921, web-site: www.ey.com/ua) have audited the Bank's financial statements according to agreement No. GFS-2021-00233 dated 11 October 2021. The audit was conducted in the period from 11 October 2021 to 17 August 2022.

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

17 August 2022

Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, registration number: 3516.

JOINT STOCK COMPANY OTP BANK

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JOINT STOCK COMPANY OTP BANK

Separate Statement of Financial Position for the Year Ended 31 December 2021 (In Ukrainian Hryvnias and in thousands)

	Notes	31 December 2021	31 December 2020 (reclassified)	31 December 2019 (reclassified)
ASSETS				
Cash and cash equivalents	4	3,870,163	3,510,420	3,139,593
Loans and advances to banks	5	9,129,391	13,628,078	4,308,470
Loans and advances to customers	6	40,460,458	27,638,193	25,311,393
Investments in securities	7	14,627,919	12,503,675	10,824,761
Derivative financial assets		8,376	10,561	454
Investments in subsidiaries joint ventures and associates	8	139,143	139,143	139,143
Investment property		26,075	27,857	28,152
Current tax assets		110	90	64
Deferred tax assets	16	68,847	76,544	38,747
Intangible assets other than goodwill	9	344,801	358,631	196,461
Property plant and equipment	9	948,483	822,412	564,279
Other financial assets	10	118,981	98,434	152,745
Other nonfinancial assets	10	76,697	110,869	77,061
Total assets		**69,819,444**	**58,924,907**	**44,781,323**
LIABILITIES				
Due to others banks		1,225	132	189,668
Customer accounts	11	57,064,997	47,838,522	35,401,926
Derivative financial liabilities		4	844	3,447
Other borrowed funds		176	267	378,133
Provisions for loan commitments and financial guarantee contracts		298,908	279,484	83,939
Other financial liabilities	12	1,106,276	1,043,519	767,140
Other nonfinancial liabilities	12	137,788	109,274	97,768
Current tax liabilities		149,689	81,304	84,827
Total liabilities		**58,759,063**	**49,353,346**	**37,006,848**
EQUITY				
Issued capital	22	6,186,023	6,186,023	6,186,023
Retained earnings		3,175,320	1,630,209	(103,513)
Share premium	22	405,075	405,075	405,075
Result from transactions with the shareholder	22	1,236,294	1,236,294	1,236,294
Other reserves		57,669	113,960	50,596
Total equity		**11,060,381**	**9,571,561**	**7,774,475**
Total equity and liabilities		**69,819,444**	**58,924,907**	**44,781,323**

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

Volodymyr Mudryi,	**Natalia Diuba,**
Chairman of the Management Board	**Chief Accountant**
17 August 2022	17 August 2022

БАНК • м. Київ • УКРАЇНА • АКЦІОНЕРНЕ ТОВАРИСТВО «ОТП»
Ідентифікаційний код 21685166

The accompanying notes on pages from 8 to 99 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 2021
(In Ukrainian Hryvnias and in thousands)

	Notes	2021	2020 (reclassified)
Interest Income:	13	5,770,296	4,962,915
Interest income calculated by using the effective interest rate	13	5,740,629	4,943,088
Other interest income	13	29,667	19,827
Interest expense	13	(1,129,067)	(1,409,227)
Net interest income (net interest expense)	**13**	**4,641,229**	**3,553,688**
Commission income	14	1,989,949	1,684,106
Commission expenses	14	(700,725)	(567,220)
Other income		102,884	104,883
Net increase (decrease) from financial instruments at fair value through profit or loss		231,419	(402,922)
Net increase (decrease) from operations with debt financial instruments at fair value through other comprehensive income		183,338	79,306
Net increase (decrease) from trading in foreign currencies		301,288	692,833
Net increase (decrease) from foreign exchange translation		(202,227)	95,761
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9	15	(789,663)	(1,030,570)
Other expense		(118,864)	(75,384)
Other gains (losses)		(13,340)	(18,917)
Employee benefits expense	16	(1,328,609)	(1,144,668)
Depreciation and amortisation expense	16	(316,322)	(238,128)
Other administrative and operational expenses	16	(629,626)	(613,419)
Profit (loss) before tax		**3,350,731**	**2,119,349**
Income tax expense (benefit)	17	(605,620)	(385,627)
Net profit (loss)		**2,745,111**	**1,733,722**
Earnings per share			
Weighted average number of outstanding ordinary shares		499,238	499,238
Basic and diluted earnings per share, UAH		5,499	3,473

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

Volodymyr Mudryi,
Chairman of the Management Board

17 August 2022

Natalia Diuba,
Chief Accountant

17 August 2022

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

The accompanying notes on pages from 8 to 99 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 2021

(In Ukrainian Hryvnias and in thousands)

	Notes	2021	2020
Profit (loss)		2,745,111	1,733,722
Other comprehensive income			
Components of other comprehensive income that will not be reclassified to profit or loss, before tax			
Other comprehensive income - gains (loses) from investments in equity instruments, before tax		2,038	223
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		142,650	147,059
including:			
change in fair value of investments at fair value through other comprehensive income		209,643	250,927
change in allowance for expected credit losses on investments in debt instruments at fair value through other comprehensive income		(66,993)	(103,868)
Amount of accumulated profit / (loss), reclassified to profit or loss on disposal of investments at fair value through other comprehensive income		(188,680)	(83,918)
Income tax relating to items that may be reclassified subsequently to profit or loss		(12,299)	-
Total other comprehensive income that will be reclassified to profit or loss net of tax		**(58,329)**	**63,141**
Total other comprehensive income		**(56,291)**	**63,364**
Total comprehensive income		**2,688,820**	**1,797,086**

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

Volodymyr Mudryi,
Chairman of the Management Board

17 August 2022

Natalia Diuba,
Chief Accountant

17 August 2022

м. Київ * Україна * АКЦІОНЕРНЕ ТОВАРИСТВО "ОТП БАНК"
ідентифікаційний код 21685166

The accompanying notes on pages from 8 to 99 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 2021
(In Ukrainian Hryvnias and in thousands)

	Notes	Share capital	Share premium	Result from transactions with the shareholder	Other reserves: Revaluation reserve for investments at fair value through other comprehensive income	(Accumulated deficit)/ retained earnings	Total equity
31 December 2019		**6,186,023**	**405,075**	**1,236,294**	**50,596**	**(103,513)**	**7,774,475**
Other comprehensive income		-	-	-	63,364	-	63,364
Net profit		-	-	-	-	1,733,722	1,733,722
Increase/(decrease) in equity		**-**	**-**	**-**	**63,364**	**1,733,722**	**1,797,086**
31 December 2020		**6,186,023**	**405,075**	**1,236,294**	**113,960**	**1,630,209**	**9,571,561**
Other comprehensive income		-	-	-	(56,291)	-	(56,291)
Net profit		-	-	-	-	2,745,111	2,745,111
Dividends recognized as distribution to shareholders		-	-	-	-	(1,200,000)	(1,200,000)
Increase/(decrease) in equity		**-**	**-**	**-**	**(56,291)**	**1,545,111**	**1,488,820**
31 December 2021		**6,186,023**	**405,075**	**1,236,294**	**57,669**	**3,175,320**	**11,060,381**

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

Volodymyr Mudryi,
Chairman of the Management Board

17 August 2022

Natalia Diuba,
Chief Accountant

17 August 2022

The accompanying notes on pages from 8 to 99 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 2021

(In Ukrainian Hryvnias and in thousands)

	Notes	2021	2020 (as reclassified)
Cash flows from operating activities			
Classes of cash receipts from operating activities			
Interest paid		(1,083,402)	(1,420,016)
Interest received		6,058,437	5,896,396
Commission income received		2,012,466	1,684,106
Net (increase)/decrease from operations with financial instruments at fair value through profit or loss		223,047	(412,639)
Net (increase)/decrease from operations with foreign currencies		301,288	692,833
Other cash receipts from operating activities (other income received)		98,942	120,704
Classes of cash payments from operating activities			
Commission expenses paid		(700,725)	(567,220)
Administrative expenses and other paid operating expenses, including:		(2,012,182)	(1,789,551)
Employee benefits expense		(1,278,976)	(1,123,223)
Other administrative and operational expenses		(612,490)	(599,291)
Other expense		(120,716)	(67,037)
Income taxes paid		(541,747)	(426,973)
Cash flows from operating activities before movements in operating assets and liabilities		**4,356,124**	**3,777,640**
Net (increase)/decrease in loans and receivables of banks		-	473,403
Net (increase)/decrease in loans and receivables		(14,068,505)	(2,629,836)
Net (increase)/decrease of derivative financial assets		2,185	(10,107)
Net (increase)/decrease in other financial assets		(20,547)	54,311
Net (increase)/decrease in other assets		22,988	(26,883)
Net increase/(decrease) in due to other banks		1,234	(189,987)
Net increase/(decrease) in customer accounts		10,572,888	9,191,551
Net increase/(decrease) of derivative financial liabilities		(840)	(2,603)
Net increase/(decrease) in other financial liabilities		51,895	276,379
Net increase/(decrease) in other liabilities		2,404	(437,577)
Net cash flows from operating activities		**919,826**	**10,476,291**
Cash flows from Investing activities			
Purchase of securities		(453,031,625)	(548,062,005)
Proceeds from sale of investments in securities		450,971,785	546,759,323
Proceeds from sales of property plant and equipment		4,637	34,412
Purchase of property plant and equipment		(154,341)	(145,119)
Purchase of intangible assets		(148,340)	(162,170)
Net cash outflow to investing activities		**(2,357,884)**	**(1,575,559)**

JOINT STOCK COMPANY OTP BANK

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

	Notes	2021	2020
Cash flows from financing activities			
Redemption of other borrowed funds		(91)	(367,982)
Payments on lease liabilities	9	(168,168)	(147,237)
Dividends paid		(1,200,000)	-
Net cash flows from financing activities		**(1,368,259)**	**(515,219)**
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes		**(2,806,317)**	**8,385,513**
Effect of exchange rate changes on cash and cash equivalents		(1,290,611)	1,778,325
Effect of changes allowance on cash and cash equivalents		(42,016)	-
Net increase (decrease) in cash and cash equivalents		(4,138,944)	10,163,838
Cash and cash equivalents, at the beginning of the year	**4**	**17,138,498**	**6,974,660**
Cash and cash equivalents, at the end of the year	**4**	**12,999,554**	**17,138,498**

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

Volodymyr Mudryi,
Chairman of the Management Board

17 August 2022

Natalia Diuba,
Chief Accountant

17 August 2022

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

The accompanying notes on pages from 8 to 99 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 2021 and 2020, 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 85 non-accounting operational divisions (2020: 86 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 2021, the number of the Bank's employees was 2,806 persons (2020: 3,205 persons).

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

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

2. Operating environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2021, the Ukrainian economy has contracted by growth of around 3.2% of real GDP because of COVID-19 outbreak and respective national lockdown initiatives (2020: real GDP has contracted by around 4.4%), but sustained the modest annual inflation of 10.0% (2020: 5.0%), with a change devaluation of the national currency during 2020 and 2021 years.

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is continuing refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU as well as other markets.

Uncertainty about the escalation of the military conflict may worsen forecast expectations, including inflation, and delay investment decisions, which will deter economic recovery. The risk of further rise in food prices in the world and prolonged and higher world inflation, which may create pressure on domestic pricing in Ukraine, also remains relevant.

Economic consequences of the spread of new coronavirus variants create a significant area of uncertainty. However, they are more likely to be stagflationary nature for the global economy, related to logistical and production problems. To reduce the impact of pro-inflation risks, improve inflation expectations and ensure a sustainable reduction in inflation to 5%, in December 2021 the NBU decided to raise the refinancing rate to 9 % per annum.

The degree of macroeconomic uncertainty in Ukraine in 2021 still remains high due to a significant amount of public debt scheduled for repayment in 2022, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

The IMF Board of Directors decided to allocate to Ukraine a tranche of USD 700 million under the Stand-By Arrangement. Further cooperation with the IMF and other official creditors is expected to promote to key reforms and accelerate the recovery of the Ukrainian economy. Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

3. Summary of significant accounting policies

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

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

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

3. Summary of significant accounting policies (continued)

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

Going concern. These separate financial statements have been prepared assuming that the Bank is a going concern and will continue operations for the foreseeable future. Management believes that the going concern assumption is appropriate for the Bank's separate financial statements, considering the impact of military actions on the Ukraine's territories (Note 25) on its financial condition and future financial performance.

The Bank expects the war conflict, at first, to localize and, then, to lose its intensity by the year end with business operations getting more adjusted to the state of military actions. The war will lead to material destructions resulting in the loss of around 30% of Ukrainian GDP in 2022, but on account of international financial assistance and consolidation, economy is expected to rebound by the same magnitude in 2023, contributing to 10-15% of GDP loss on 2 years horizon. The Bank expects both its loan and deposit portfolio to remain unchanged on year-on-year basis in terms of original currencies, nevertheless, UAH equivalent will increase in line with UAH depreciation by the year end. Total income will remain at the level of reporting year, but the composition will change in favor of increase of net interest income contribution at expense of, primarily, net fee and commission income. Total operating costs will increase by about 20% driven by adjustment of cost base to level of inflation and UAH depreciation on foreign currency pegged costs. The Bank expects that the outcomes of war will require material increase of credit loss provisions, coverage of loan portfolio will at least double and, in worst case, may triple as compare to the level as of end of reporting year and it will contribute to negative profit contribution by the year end. Nevertheless, the Bank has sufficient reserves in its capital position that will allow it to survive the war with sufficient capital adequacy.

Management and shareholder is intending further development of the Bank's operations in Ukraine. However, there is material uncertainty due to the unpredictable impact of ongoing hostilities in Ukraine on assumptions underlying management estimates that may cast significant doubts on the Bank's ability to continue as a going concern and, therefore, it will not be able to sell its assets and fulfill obligations in the ordinary 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, performance and expected credit losses provide sufficient grounds for preparation these separate financial statements based on the going concern basis.

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Reclassifications.

In these financial statements as at 31 December 2021, the Bank has reclassified comparative information of the statement of financial position, the statement of profit or loss and the statement of cash flows.

In 2021, in accordance with the Law of Ukraine on Financial Reporting, the Bank for the first time submitted financial statements based on taxonomy according to international standards in a unified electronic format for previous reporting periods. The unified electronic format for Ukrainian banks is defined by the National Bank of Ukraine.

In connection with this submission, the Bank has revised the format of presentation of information in these financial statements and amended the comparative data accordingly to bring them in line with the unified electronic format of data submission. In addition, the Bank changed the names of certain items in the statement of financial position, the statement of profit or loss, the statement of other comprehensive Income and the statement of cash flows without changing the substance of the balances.

In addition, the Bank has revised its approach and made certain reclassifications to comparative information, in line with the 2021 presentation, for the following income statement items: interest expense, commission expense, net income (loss) from financial instruments at fair value through profit or loss, other administrative and operational costs.

Below are the results of all the above significant changes.

Separate Statement of Financial Position

Report's Article	for 31 December 2020 year (as reported)	Reclassifications	for 31 December 2020 year (as reclassificated)	for 31 December 2019 year (as reported)	Reclassifications	for 31 December 2019 year (as reclassificated)
ASSETS						
Investments measured at fair value through other comprehensive income	6,602,257	(6,602,257)	-	3,612,465	(3,612,465)	-
Investments measured at amortized cost	5,901,418	(5,901,418)	-	7,212,296	(7,212,296)	-
Investments in securities	-	12,503,675	12,503,675	-	10,824,761	10,824,761
Other assets	219,864	(219,864)	-	230,260	(230,260)	-
Derivative financial assets	-	10,561	10,561	-	454	454
Other financial assets	-	98,434	98,434	-	152,745	152,745
Other nonfinancial assets	-	110,869	110,869	-	77,061	77,061
Property and equipment and intangible assets	734,358	(734,358)	-	568,882	(568,882)	-
Right-of-use assets	446,685	(446,685)	-	191,858	(191,858)	-
Intangible assets other than goodwill	-	358,631	358,631	-	196,461	196,461
Property plant and equipment	-	822,412	822,412	-	564,279	564,279

(In Ukrainian Hryvnias and in thousands)

LIABILITIES						
Due to banks and other financial institutions	399	(399)	-	567,801	(567,801)	-
Due to others banks	-	132	132	-	189,668	189,668
Other borrowed funds	-	267	267	-	378,133	378,133
Lease liabilities	450,684	(450,684)	-	174,425	(174,425)	-
Other liabilities	982,437	(982,437)	-	777,869	(777,869)	-
Derivative financial liabilities	-	844	844	-	3,447	3,447
Provisions for loan commitments and financial guarantee contracts	-	279,484	279,484	-	83,939	83,939
Other financial liabilities	-	1,043,519	1,043,519	-	767,140	767,140
Other nonfinancial liabilities	-	109,274	109,274	-	97,768	97,768

Separate Statement of Profit or Loss

Report's Article	**2020 (as reported)**	**Reclassifications**	**2020 (as reclassificated)**
Interest expense	(1,386,122)	(23,105)	(1,409,227)
Commission expenses	(506,572)	(60,648)	(567,220)
Net gain on foreign exchange and precious metals operations	295,785	(295,785)	-
Net increase (decrease) from financial instruments at fair value through profit or loss	89,887	(492,809)	(402,922)
Net increase (decrease) from trading in foreign currencies	-	692,833	692,833
Net increase (decrease) from foreign exchange translation	-	95,761	95,761
Charge of allowance for expected credit losses on interest-bearing assets	(836,210)	836,210	-
Charge of allowance for expected credit losses on other operations	(202,707)	202,707	-
Impairment loss and reversal of impairment loss (impairment loss) determined in accordance with IFRS9	-	(1,030,570)	(1,030,570)
Operating expense	(2,147,005)	2,147,005	-
Other expense	-	(75,384)	(75,384)
Employee benefits expense	-	(1,144,668)	(1,144,668)
Depreciation and amortisation expense	-	(238,128)	(238,128)
Other administrative and operational expenses	-	(613,419)	(613,419)

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Separate Statement of Cash Flows

Report's Article	**2020 (as reported)**	**Reclassifications**	**2020 (as reclassificated)**
Interest paid	(1,396,911)	(23,105)	1,420,016
Commission expenses paid	(506,572)	(60,648)	567,220
Net (increase)/decrease from operations with financial instruments at fair value through profit or loss	80,170	(492,809)	(412,639)
Net (increase)/decrease from operations with foreign currencies	200,024	492,809	692,833
Administrative expenses and other paid operating expenses	(1,873,304)	83,753	(1,789,551)
Decrease/(increase) in other assets	17,321	(17,321)	-
Decrease/(increase) in derivative financial assets	-	(10,107)	(10,107)
Decrease/(increase) in other financial assets	-	54,311	54,311
Decrease/(increase) in other nonfinancial assets	-	(26,883)	(26,883)
(Decrease)/increase in other liabilities	(163,801)	163,801	-
(Decrease)/increase in derivative financial liabilities	-	(2,603)	(2,603)
(Decrease)/increase in other financial liabilities	-	276,379	276,379
(Decrease)/increase in other nonfinancial liabilities	-	(437,577)	(437,577)
Purchase of property and equipment and intangible assets	(307,289)	307,289	-
Purchase of property and equipment	-	(145,119)	(145,119)
Purchase of intangible assets	-	(162,170)	(162,170)
Purchase of investments measured at fair value through other comprehensive income	(39,510,646)	39,510,646	-
Purchase of investments measured at amortized cost	(508,551,359)	508,551,359	-
Purchase of investments in securities	-	(548,062,005)	(548,062,005)
Proceeds on sale and repayment of investments measured at fair value through other comprehensive income	36,909,323	(36,909,323)	-
Proceeds on repayment of investments measured at amortized cost	509,850,000	(509,850,000)	-
Proceeds on repayment of investments in securities	-	546,759,323	546,759,323

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 2021, but they have had no significant effect on the Bank:

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2	The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR)
COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16	Prolongation for a year COVID-19 Rent Concessions IFRS 16. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) is not applicable for the Bank. The Bank have not utilized a relief provided COVID-19-Related Rent Concessions to IFRS 16 effective after 30 June 2021.

3. Summary of significant accounting policies (continued)

Significant accounting policies

Interest income and expense. Interest income and expense for all financial instruments are recognized in 'Interest Income' and 'Interest Expense' respectively, except for those measured at fair value through profit or loss, in the separate statement of profit or loss and other comprehensive income using the effective interest rate method. Interest on financial instruments measured as at fair value through profit or loss (FVTPL) is included within the fair value movement during the period.

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Specifically:

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

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

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

<u>Financial assets at FVTPL</u>. Financial assets at FVTPL are:

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

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

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

<u>Impairment</u>. 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.

3. Summary of significant accounting policies (continued)

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

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

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

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

- 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. Summary of significant accounting policies (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.

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

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

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

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

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

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECLs (Stage 2).

3. Summary of significant accounting policies (continued)

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.

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

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

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

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

In the case where the financial asset is derecognized, the loss allowance for ECLs is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECLs, except, where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is

3. Summary of significant accounting policies (continued)

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.

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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.

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Derivative financial instruments. In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank are not

designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value with recognition of changes in fair value through profit or loss at each reporting date. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

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

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

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

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

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

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

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

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

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

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Share capital and share premium. Contributions to share capital are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

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

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

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

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

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

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

Rates of exchange. The official exchange rates as at 31 December 2021 and 2020 used by the Bank in the preparation of the separate financial statements were as follows:

	31 December 2021	**31 December 2020**
UAH/USD 1	27.2782	28.2746
UAH/EUR 1	30.9226	34.7396

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

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

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

Standards/Interpretations	Effective for the annual accounting periods beginning on or after:
Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 “Accounting Policies” – Definition of Accounting Estimates	1 January 2023
IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or contribution of assets between an investor and its associate or joint venture	The effective date to be determined
Amendments to IAS 1 “Presentation of Financial Statements” – Classification of liabilities as short-term or long-term	1 January 2023
Amendments to IFRS 3 “Business Combinations” – References to the Conceptual Framework in IFRS	1 January 2022
Amendments to IAS 16 “Property, Plant, and Equipment” – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts: Cost of fulfilling a contract	1 January 2022
Amendments to IAS 12 “Income Taxes” – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Annual Improvements to IFRS 2018–2020 cycles – Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture	1 January 2022

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

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

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

3. Summary of significant accounting policies (continued)

Significant assumptions

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

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.

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.

3. Summary of significant accounting policies (continued)

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 2021, there was no active real estate market for certain types of buildings and constructions available, in reality, when determining the value of the collateralized property, its assessed value is used which was arrived at mainly through the judgment of professional appraisers, and not from the analysis of market factors. Assessment of the fair value of property requires making judgments and using assumptions regarding comparability of property items and other factors. Considering the above, the allowance for loan impairment may be affected by the assessed property value applied. Accounting estimates related to the property appraisals in the absence of active market-based prices are considered to be a key source of uncertainty due to the fact that: (i) they are highly susceptible to change from period to period and (ii) a potential impact from recognition of such estimates may be material.

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

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

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

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

3. Summary of significant accounting policies (continued)

***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 2021	31 December 2020
Balances with the National Bank of Ukraine	2,608,788	2,284,940
Cash	1,261,375	1,225,480
Total cash and cash equivalents	**3,870,163**	**3,510,420**

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

	31 December 2021	31 December 2020
Cash and cash equivalents for the purposes of the Statement of Financial Position	3,870,163	3,510,420
Loans and advances to banks (Note 5)	9,129,391	13,628,078
Total cash and cash equivalents	**12,999,554**	**17,138,498**

5. Loans and advances to banks

Loans and advances to banks comprised:

	31 December 2021	31 December 2020
Correspondent accounts with banks	8,726,887	13,610,807
Loans under repo transactions	439,822	18,469
Loans to banks	6,185	-
Allowance for expected credit losses	(43,503)	(1,198)
Total loans and advances to banks	**9,129,391**	**13,628,078**

As at 31 December 2021 and 2020, the Bank received pledged securities that were used as a collateral under repo agreements in the amount of the nominal value of UAH 439,822 thousand and UAH 18,469 thousand, respectively.

As at 31 December 2021 and 2020, in loans and advances to banks there was included accrued interest in the amount of UAH 1,057 thousand and UAH 19 thousand, respectively.

As at 31 December 2021, due from five banks for the total amount of UAH 7,393,099 thousand individually exceeded 10% of the Bank’s equity. As at 31 December 2020, due from three banks for the total amount of UAH 13,137,935 thousand individually exceeded 10% of the Bank’s equity.

As at 31 December 2021 and 2020, the maximum credit risk exposure on loans and advances to banks amounted to UAH 9,129,391 thousand and UAH 13,628,078 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers

Loans and advances to customers comprised:

	31 December 2021	31 December 2020
Loans to legal entities and individual entrepreneurs	31,675,452	21,393,884
Consumer loans to individuals	10,165,908	8,197,852
Mortgage loans to individuals	842,307	1,371,488
Finance leases receivables	326,179	385,275
Loans under repo transactions	848,801	-
Other loans to individuals	3,689	3,478
Total loans and advances to customers before allowance for expected credit losses	**43,862,336**	**31,351,977**
Less: Allowance for expected credit losses	(3,401,878)	(3,713,784)
Total loans and advances to customers	**40,460,458**	**27,638,193**

As at 31 December 2021, the Bank received securities pledged as collateral under reverse repo agreements in the amount of the nominal value of UAH 848,801 thousand (2020: there were no reverse purchase transactions and securities pledged as collateral).

As at 31 December 2021 and 2020, in loans and advances to customers there was included interest accrued in the amount of UAH 629,807 thousand and UAH 820,356 thousand, respectively.

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

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

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

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

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

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

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

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

	31 December 2021	31 December 2020
Guarantees	237,095	71,813
Secured loans:	**18,880,694**	**17,665,961**
Loans secured by other real estate	7,510,584	8,955,591
Loans secured by equipment, inventory, and rights thereon	8,414,332	6,158,908
Loans secured by residential properties	919,898	1,412,058
Loans secured by cash or guarantee deposits with the Bank	1,190,090	1,139,404
Loans secured by securities	845,790	-
Unsecured and uncollateralized loans	**24,744,547**	**13,614,203**
Total loans and advances to customers before allowance for expected credit losses	**43,862,336**	**31,351,977**
Less: Allowance for expected credit losses	(3,401,878)	(3,713,784)
Total loans and advances to customers	**40,460,458**	**27,638,193**

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 2021	31 December 2020
Secured loans:	**1,208,733**	**2,129,446**
Loans secured by other real estate	572,416	925,454
Loans secured by residential properties	417,523	828,606
Loans secured by equipment, inventory, and rights thereon	218,544	375,136
Loans secured by cash or guarantee deposits with the Bank	250	250
Unsecured and uncollateralized loans	**1,532,249**	**1,569,372**
Total loans and advances to customers before allowance for expected credit losses	**2,740,982**	**3,698,818**
Less: Allowance for expected credit losses	(1,890,091)	(2,673,290)
Total loans and advances to customers	**850,891**	**1,025,528**

As at 31 December 2021 and 2020, almost all corporate loans (over 99% of loans and advances to customers) were granted to the companies operating in Ukraine, which represents a significant geographical concentration in one region (Note 24).

6. Loans and advances to customers (continued)

As at 31 December 2021, the Bank provided loans to one group of customers in the total amount of UAH 2,009,906 thousand, which separately exceeded 10% of the Bank's equity.

As at 31 December 2020, 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 2021 and 2020, the maximum credit risk exposure on loans and advances to customers amounted to UAH 40,460,458 thousand and UAH 27,638,193 thousand, respectively. Credit quality of loans and advances to customers is disclosed in Note 24.

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

During the year ended 31 December 2020, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 1,156,122 thousand for UAH 122,597 thousand. As a result of the transaction, the allowances recognised earlier were written-off for the amount of UAH 1,033,525 thousand.

(In Ukrainian Hryvnias and in thousands)

6. Loans and advances to customers (continued)

As at 31 December 2021 and 2020, loans and advances to customers included the finance leases receivables disclosed as follows:

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

		31 December 2020
	Minimum lease payments	**Present value of minimum lease payments**
Receivables under finance leases		
Up to 1 year	91,469	59,924
From 1 to 2 years	97,439	70,683
From 2 to 3 years	185,589	175,410
From 3 to 4 years	59,734	53,932
From 4 to 5 years	15,493	12,953
Over 5 years	12,977	12,373
Total investments in finance leases	**462,701**	**385,275**
Unearned finance income on finance leases	(77,426)	-
Allowance for expected credit losses on finance leases	(59,723)	(59,723)
Net investments in finance leases	**325,552**	**325,552**
Current finance leases receivable		50,635
Non-current finance leases receivable		274,917
Net investments in finance leases		**325,552**

(In Ukrainian Hryvnias and in thousands)

7. Investments in securities

Investments in securities comprised:

	31 December 2021	31 December 2020
- Debt securities measured at fair value through other comprehensive income	7,671,679	6,602,257
- Investments measured at amortized cost	6,956,240	5,901,418
Total investments in securities	**14,627,919**	**12,503,675**

Investments measured at fair value through other comprehensive income comprised:

	31 December 2021	31 December 2020
Debt securities:		
- Government	7,668,688	6,601,304
- Corporate entities and banks	2,991	953
Total investments measured at fair value through other comprehensive income	**7,671,679**	**6,602,257**

As at 31 December 2021 and 2020, in investments measured at fair value through other comprehensive income there was included accrued interest in the amount of UAH 178,725 thousand and UAH 127,049 thousand, respectively.

Investments measured at amortized cost comprised:

	31 December 2021	31 December 2020
Debt securities:		
- Government	6,906,494	5,901,418
- Corporate	49,746	-
Total investments measured at amortized cost	**6,956,240**	**5,901,418**

As at 31 December 2021 and 2020, in investments measured at amortized cost there was included accrued interest in the amount of UAH 7,745 thousand and UAH 1,418 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 2021 and 2020, 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 2019	**272,492**	**320,868**	**15**	**593,375**
Additions and internal transfers	44,006	155,384	-	199,390
Disposals	(44,331)	(24,440)	-	(68,771)
31 December 2020	**272,167**	**451,812**	**15**	**723,994**
Additions and internal Transfers	28,743	48,980	-	77,723
Disposals	(21)	(18)	-	(39)
31 December 2021	**300,889**	**500,774**	**15**	**801,678**
Accumulated depreciation and amortization				
31 December 2019	**248,193**	**148,713**	**8**	**396,914**
Charges for the year	10,325	26,894	1	37,220
Eliminated on disposals	(44,331)	(24,440)	-	(68,771)
31 December 2020	**214,187**	**151,167**	**9**	**365,363**
Charges for the year	19,283	72,269	1	91,553
Eliminated on disposals	(21)	(18)	-	(39)
31 December 2021	**233,449**	**223,418**	**10**	**456,877**
Net book value				
31 December 2021	**67,440**	**277,356**	**5**	**344,801**
31 December 2020	**57,980**	**300,645**	**6**	**358,631**

(In Ukrainian Hryvnias and in thousands)

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

Fixed assets comprise the following:

	Buildings and other real estate	Furniture and equip-ment	Other non-current tangible assets	Vehicles	Construc-tion in progress	Right-of-use assets	Total
Cost							
31 December 2019	**130,073**	**460,762**	**142,530**	**29,359**	**43,985**	**295,220**	**1,101,929**
Additions and internal Transfers	420	80,630	16,001	-	11,411	432,176	540,638
Disposals	-	(12,577)	(4,432)	(665)	(34,902)	(161,960)	(214,536)
31 December 2020	**130,493**	**528,815**	**154,099**	**28,694**	**20,494**	**565,436**	**1,428,031**
Additions and internal Transfers	353	142,381	18,070	4,598	51,819	154,457	371,678
Disposals	-	(30,499)	(3,203)	-	-	(107,247)	(140,949)
31 December 2021	**130,846**	**640,697**	**168,966**	**33,292**	**72,313**	**612,646**	**1,658,760**
Accumulated depreciation and amortization							
31 December 2019	**26,426**	**287,066**	**109,049**	**11,748**	**-**	**103,361**	**537,650**
Charges for the year	2,734	46,709	16,684	4,102	-	130,732	200,961
Eliminated on disposals	-	(12,553)	(4,432)	(665)	-	(115,342)	(132,992)
31 December 2020	**29,160**	**321,222**	**121,301**	**15,185**	**-**	**118,751**	**605,619**
Charges for the year	2,747	64,896	15,431	4, 040	-	137,635	224,749
Eliminated on disposals	-	(30,459)	(3,203)	-	-	(86,429)	(120,091)
31 December 2020	**31,907**	**355,659**	**133,529**	**19,225**	**-**	**169,957**	**710,277**
Net book value							
31 December 2021	**98,939**	**285,038**	**35,437**	**14,067**	**72,313**	**442,689**	**948,483**
31 December 2020	**101,333**	**207,593**	**32,798**	**13,509**	**20,494**	**446,685**	**822,412**

As at 31 December 2021 and 2020, in property and equipment and intangible assets there were included fully depreciated property and equipment and amortized intangible assets in the amount of UAH 462,763 thousand and UAH 408,080 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

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

Right-of-use assets

During 2021 and 2020, right-of-use assets had the following effect on the Bank’s financial result:

	2021	2020
Amounts recognized in profit or loss		
Depreciation of right-of-use assets	(137,635)	(130,731)
Operating expense on leases	(11,135)	(13,103)
Interest expense on lease liabilities	(36,192)	(24,508)
Gain on subleases of right-of-use assets	490	303
Total effect on financial performance	**(184,472)**	**(168,039)**

As at 31 December 2021 and 2020, the average lease period of right-of-use assets was 37 months and 30 months, respectively.

As at 31 December 2021 and 2020, the Bank had no lease contracts presupposing the purchase of assets at their nominal values.

10. Other financial and non-financial assets

Other financial assets comprised:

	31 December 2021	31 December 2020
Other financial assets		
Accounts receivable and settlement/transit accounts	110,420	90,075
Income accrued	43,147	39,205
Other financial assets before allowance for expected credit losses	**153,567**	**129,280**
Less: Allowance for expected credit losses	(34,586)	(30,846)
Total other financial assets	**118,981**	**98,434**

(In Ukrainian Hryvnias and in thousands)

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

Other non-financial assets comprised:

	31 December 2021	31 December 2020
Other non-financial assets		
Prepaid expenses	33,109	21,392
Inventories	17,551	16,869
Prepayments for property and equipment and intangible assets	11,823	7,056
Properties repossessed by the Bank as a collateral holder	10,104	24,535
Precious metals	5,553	40,777
Taxes recoverable and prepaid, other than income taxes	2,512	2,851
Other advances and prepayments	222	391
Other non-financial assets before provision for impairment	**80,874**	**113,871**
Less: Provision for impairment	(4,177)	(3,002)
Total other non-financial assets	**76,697**	**110,869**

11. Customer accounts

Customer accounts comprised:

	31 December 2021	31 December 2020
Current accounts and deposits repayable on demand	50,554,605	42,255,518
Term deposits	6,510,392	5,583,004
Total customer accounts	**57,064,997**	**47,838,522**

As at 31 December 2021 and 2020, in customer accounts there was included interest accrued in the amount of UAH 47,721 thousand and UAH 51,306 thousand, respectively.

As at 31 December 2021 and 2020, customer accounts amounting to UAH 5,816,160 thousand (10.2%) and UAH 4,785,535 thousand (10.0%) were due to fourteen customers and ten customers, respectively, which represents a significant concentration.

As at 31 December 2021 and 2020, customer accounts amounting to UAH 1,438,885 thousand and UAH 1,300,452 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 2021	31 December 2020
Other financial liabilities		
Lease liabilities	450,168	450,684
Accruals for unused vacations and bonuses	349,464	302,602
Transit and settlement accounts	266,520	247,802
Payables to other counterparties	19,047	19,521
Payables on property and equipment	2,496	7,095
Other	18,581	15,815
Total other financial liabilities	**1,106,276**	**1,043,519**

Lease liabilities

Movements of lease liabilities for the years 2021 and 2020 were as follows:

	2021	2020
As at the beginning of the period	**450,684**	**174,425**
Increase in lease liabilities	143,733	431,727
Interest accrued	36,192	24,508
Write-off of lease liabilities	(20,588)	(48,673)
Repayment of lease liabilities	(168,168)	(147,237)
Effect of foreign exchange fluctuations	8,315	15,934
Total lease liabilities as at the end of the period	**450,168**	**450,684**

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 2021, foreign currency denominated lease liabilities amounted to USD 11,662 thousand. As at 31 December 2020, foreign currency denominated lease liabilities amounted to USD 11,797 thousand and EUR 15 thousand.

The maturity profile of lease liabilities was as follows:

	31 December 2021	31 December 2020
Up to one year	117,157	93,775
More than one year, but less than two years	84,589	80,956
More than two years, but less than three years	46,593	49,743
More than three years, but less than four years	30,871	27,883
More than four years, but less than five years	26,499	22,286
More than five years	144,459	176,041
Total lease liabilities	**450,168**	**450,684**

(In Ukrainian Hryvnias and in thousands)

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

Other non-financial liabilities comprised:

	31 December 2021	31 December 2020
Other non-financial liabilities		
Deferred income	92,094	69,137
Payables on contributions to Individual Guarantee Deposit Fund	37,658	35,255
Taxes payable, other than income taxes	8,035	4,882
Other	1	-
Total other non-financial liabilities	**137,788**	**109,274**

13. Net interest income (net interest expense)

Net interest income (net interest expense), comprised:

	2021	2020
Interest income		
Interest income calculated by using the effective interest rate:		
Interest income on loans to customers	4,839,910	4,001,553
Interest income on investments measured at amortized cost	295,777	540,223
Interest income on investments measured at fair value through other comprehensive income	554,313	374,316
Interest income on reverse repurchase agreements	44,138	13,535
Interest income on due from banks	6,491	13,461
Total interest income calculated by using the effective interest rate	**5,740,629**	**4,943,088**
Other interest income:		
Interest income on finance leases	29,667	19,827
Total interest income	**5,770,296**	**4,962,915**
Interest expense		
Interest expense calculated by using the effective interest rate:		
Interest expense on customer accounts	(1,051,679)	(1,313,171)
Interest expense on due to banks and other financial institutions	(279)	(48,443)
Interest expense on financial assets with a negative interest rate	(40,917)	(23,105)
Total interest expense calculated by using the effective interest rate	**(1,092,875)**	**(1,384,719)**
Other interest expense:		
Interest expense on lease liabilities	(36,192)	(24,508)
Total interest expense	**(1,129,067)**	**(1,409,227)**
Net interest income before allowance for expected credit losses on interest-bearing assets	**4,641,229**	**3,553,688**

(In Ukrainian Hryvnias and in thousands)

14. Fee and commission income and expense

Fee and commission income and expense comprised:

	2021	2020
Fee and commission income		
Settlement and cash operations with clients	981,744	742,104
Plastic cards operations	394,648	421,888
Foreign currency transactions	391,497	315,871
Guarantees issued	90,408	88,548
Income on insurance	87,289	77,756
Other income	44,363	37,939
Total fee and commission income	**1,989,949**	**1,684,106**
Fee and commission expense		
Plastic cards operations	(529,256)	(433,481)
Settlements	(91,131)	(70,188)
Agent fees	(40,428)	(33,152)
Other expense	(39,910)	(30,399)
Total fee and commission expense	**(700,725)**	**(567,220)**

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

	Notes	2021	2020
Impairment loss on loans and advances to banks	24	(42,016)	(355)
Impairment loss on loans and advances to customers	24	(583,222)	(690,438)
Impairment loss on investments in securities	24	(131,663)	(145,417)
Impairment loss on other financial assets	24	(4,970)	(9,383)
Impairment loss on issued financial guarantees and similar contractual obligations	24	(27,792)	(184,977)
Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9		**(789,663)**	**(1,030,570)**

(In Ukrainian Hryvnias and in thousands)

16. Operational expenses

Operating expense comprised:

	2021	2020
Expenses for payments to employees		
Staff costs	1,123,553	965,863
Salary related taxes and charges	205,056	178,805
Total expenses for payments to employees	**1,328,609**	**1,144,668**
Depreciation and amortization	316,322	238,128
Other administrative and operating expense		
Property and equipment maintenance	159,964	155,495
Contributions to Individual Deposit Guarantee Fund	147,080	125,232
Expense on customer acquisition	26,832	19,260
Software right-of-use costs	20,572	80,846
Advertising costs	77,441	64,427
Professional services	70,302	61,142
Communication services	55,197	39,807
Royalty costs	37,449	30,791
Operating leases	11,135	13,103
Security expenses	12,554	12,732
Taxes, other than income tax	11,100	10,584
Total other administrative and operating expense	**629,626**	**613,419**
Total operating expense	**2,274,557**	**1,996,215**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense

Temporary differences as at 31 December 2021 were as follows:

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

Temporary differences as at 31 December 2020 were as follows:

	31 December 2019	Recognised in Profit&Loss	31 December 2020
Temporary differences:			
Allowance for expected credit losses on guarantees and other commitments	15,109	35,198	50,307
Property and equipment and intangible assets	14,190	1,597	15,787
Losses on sale of securities	9,020	829	9,849
Other temporary differences	428	173	601
Net deferred income tax assets	**38,747**	**37,797**	**76,544**

(In Ukrainian Hryvnias and in thousands)

17. Income tax expense (continued)

The income tax rate applicable for the years ended 31 December 2021 and 2020 was 18%.

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2021 and 2020 was as follows:

	2021	2020
Profit before income tax	**3,350,731**	**2,119,349**
Tax at the statutory tax rate	603,132	381,483
Adjustments of accounting profit:		
Impairment of repossessed real estate	1,223	1,223
Current income tax for previous period	201	3,687
Tax effect of other permanent differences	1,064	(766)
Income tax expense	**605,620**	**385,627**
Current income tax expense	610,222	423,424
Deferred income tax (benefit)/expense	(4,602)	(37,797)
Income tax expense	**605,620**	**385,627**
Deferred income tax assets		
At the beginning of the period	**76,544**	**38,747**
Deferred income tax benefit/(expense)	4,602	37,797
Deferred tax related to change of fair value correction of securities at fair value through other comprehensive income	(12,299)	-
At the end of the period	**68,847**	**76,544**

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

As at 31 December 2021 and 2020, authorized and paid-in share capital consisted of 499,238 ordinary shares at par value of UAH 12,390.93 each.

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

The Bank has not issued any bearer and privileged shares.

The Bank’s shareholders are entitled to:

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

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

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

(iii) Receive complete and reliable information about the Bank's activities;
(iv) Use the shares held by them in accordance with the procedures determined by the effective legislation of Ukraine;
(v) Purchase preemptively the shares additionally issued by the Bank pro rata to the shareholders' interest in the Bank's share capital in the event the Bank conducts private placement of its shares;
(vi) Propose on any issues included to the agenda of the Bank's general shareholders' meetings;
(vii) In the event of the Bank's liquidation, receive a portion of the property value pro rata to their shareholdings.

The Bank's distributable profits to shareholders are limited to the amount of its reserves as disclosed in its separate financial statements in accordance with the statutory requirements to accounting and reporting of banking institutions in Ukraine. Non-distributable reserves are represented by a reserve fund which is created as required by the effective legislation and statutory regulations of the National Bank of Ukraine in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The Bank's reserve is created upon the shareholders' decision in the amount envisaged by the law, provided the contributions amount to at least 5 percent of the Bank's net profits. As at 31 December 2021 and 2020 non-distributable reserves (reserve funds) amounted to UAH 481,875 thousand and UAH 395,189 thousand, respectively.

As at 31 December 2021 and 2020, the share premium totaling to UAH 405,075 thousand represented an excess of contributions received over the nominal value of the shares issued.

In 2021 and 2020, 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.

In accordance with the Resolution № 12/2021 of the Supervisory Board of April 19, 2021 during year 2021 the Bank paid dividends as allocation of the annual profit of OTP Bank JSC for year 2020 in the amount of UAH 1,200,000 thousand to its shareholder. In 2020, 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 2021 and 2020, the nominal or contractual amounts of contingent liabilities were as follows:

	31 December 2021	31 December 2020
Contingent liabilities and loan commitments		
Guarantees issued and similar commitments:	3,295,946	2,971,214
Financial guarantees issued	2,801,439	2,703,183
Import letters of credit	408,883	238,482
Avals	85,624	29,549
Undrawn loan commitments	9,964,809	6,913,437
Contingent liabilities and loan commitments	**13,260,755**	**9,884,651**

As at 31 December 2021 and 2020, non-financial guarantees (performance guarantees) amounted to UAH 194,961 thousand and UAH 304,832 thousand, respectively.

As at 31 December 2021 and 2020, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines amounted to UAH 12,966,346 thousand and UAH 9,612,855 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 2021 and 2020, 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 2021 and 2020 with its related parties:

	31 December 2021		31 December 2020	
	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:	390,462	9,129,391	217,178	13,628,078
- Parent (interest rates from -0.81% to 0)	124,561	-	38,345	-
- Entities under common control or significant influence (interest rates from 0% to 0.5%)	265,901	-	178,833	-
Loans and advances to customers before allowance for expected credit losses:	2,024,027	43,862,336	660,168	31,351,977
- Entities under common control or significant influence (interest rates 3.6% in USD, from 3% to 3.5% in EURO and from 10% to 11% in UAH)	2,022,427	-	659,100	-
- Key management personnel	1,600	-	1,068	-
Allowance for expected credit losses on loans and advances to customers:	(47,957)	(3,401,878)	(15,747)	(3,713,784)
- Entities under common control or significant influence	(47,711)	-	(15,704)	-
- Key management personnel	(246)	-	(43)	-
Investment in subsidiary:	139,143	139,143	139,143	139,143
- Subsidiary	139,143	-	139,143	-
Other financial assets:	7,313	118,981	258	98,434
- Parent	7,167	-	64	-
- Entities under common control or significant influence	146	-	194	-
Due to others banks:	127	1,225	132	132
- Parent	125	-	130	-
- Entities under common control or significant influence	2	-	2	-
Customer accounts:	811,838	57,064,997	759,404	47,838,522
- Entities under common control or significant influence (interest rates 0% in USD, 0% in EURO and from 0% to 3% in UAH)	134,846	-	205,147	-
- Key management personnel	39,448	-	53,549	-
- Subsidiary (interest rates 0% in USD, 0% in EURO and from 0% to 4,5% in UAH)	637,544	-	500,708	-
Other financial liabilities:	40,928	1,106,276	37,324	1,043,519
- Parent	10,647	-	9,645	-
- Key management personnel	30,281	-	27,679	-
Undrawn loan commitments:	1,143	9,964,809	1,565	6,913,437
- Key management personnel	1,143	-	1,565	-

(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 2021 and 2020 were the following amounts which arose due to the transactions with related parties:

	2021		2020	
	Related party transactions	**Total category as per separate financial statements caption**	**Related party transactions**	**Total category as per separate financial statements caption**
Interest income:	117,905	5,770,296	84,587	4,962,915
- Parent	588	-	13	-
- Entities under common control or significant influence	117,239	-	84,419	-
- Key management personnel	78	-	155	-
Interest expense:	(14,007)	(1,129,067)	(27,452)	(1,409,227)
- Entities under common control or significant influence	(1,552)	-	(2,098)	-
- Key management personnel	(731)	-	(837)	-
- Subsidiary	(11,724)	-	(24,517)	-
Fee and commission income:	4,061	1,989,949	4,574	1,684,106
- Parent	142	-	43	-
- Entities under common control or significant influence	3,749	-	4,338	-
- Subsidiary	170	-	193	-
Fee and commission expense:	(415)	(700,725)	(25,738)	(567,220)
- Parent	(263)	-	(25,604)	-
- Entities under common control or significant influence	(152)	-	(134)	-
Net increase (decrease) from foreign exchange translation:	(1,078,477)	(202 227)	1,027,593	95,761
- Parent	(1,069,531)	-	1,030,025	-
- Entities under common control or significant influence	(8,946)	-	(2,432)	-
Net increase (decrease) from financial instruments at fair value through profit or loss:	228,190	231,419	19,616	(402,922)
- Parent	228,190	-	19,616	-
		-		---
Impairment loss and reversal of impairment loss determined in accordance with IFRS9:	(34,710)	(789,663)	(8,225)	(1,030,570)
- Parent	(282)			
- Entities under common control or significant influence	(34,194)	-	(8,194)	-
- Key management personnel	(234)	-	(31)	-
Other income:	1,719	102,884	1,045	104,883
- Entities under common control or significant influence	1,321	-	664	-
- Subsidiary	398	-	381	-
Other administrative and operational expenses:	(42,557)	(629,626)	(101,569)	(613,419)
- Parent	(20,867)	-	(18,707)	-
- Entities under common control or significant influence	(21,131)	-	(81,854)	-
- Subsidiary	(559)	-	(1,008)	-

(In Ukrainian Hryvnias and in thousands)

20. Related party transactions (continued)

During the years ended 31 December 2021 and 2020, remuneration to key management personnel comprised short-term benefits in the amount of UAH 86,145 thousand and UAH 81,884 thousand, respectively.

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

21. Fair value of financial instruments

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs
	31 December 2021	31 December 2020		
1) Derivative financial assets	8,376	10,561	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	3,018,786	3,064,076	Level 1	Quoted deal prices in an active market
3) Investments measured at fair value through other comprehensive income	2,991	3,274,450	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 2021	31 December 2020		
3) Investments measured at fair value through other comprehensive income	4,649,902	263,731	Level 3	Discounted cash flows. Future cash flows are estimated based on observable market data, as well as unobservable market data. Unobservable data include curve of coupon-free yield domestic government loan bonds denominated in euro and denominated in dollars, calculated by the National Bank of Ukraine and published on the official website.
4) Derivative financial liabilities	4	844	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 2021, there were transferred between levels of fair value hierarchy of securities measured at fair value through other comprehensive income from the 2nd to the 3rd level in the amount of UAH 590,739 thousand. Transferring between levels of the hierarchy is associated with a change in the methods of their valuation. Calculating discounted flows, the Bank uses rates based on the NBU yield curve which is calculated basing on Nelson-Siegel model. The Bank assumes this is level 3 input, because the yield curve is calculated by local Central Bank and is based on a parametric model, inputs for which are unobservable.

As at 31 December 2020, there were no transfers between the levels of fair value hierarchy.

(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:

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

	2020
Investments measured at fair value through other comprehensive income	
As at 31 December 2019	-
Income/(expense) for the period recognized in profit or loss	(1,305)
Income/(expense) for the period recognized in other comprehensive income	3,256
Purchases	329,523
Disposals or sales	(67,743)
Other	-
As at 31 December 2020	**263,731**

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.

		31 December 2021		31 December 2020	
	Levels of hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Cash and cash equivalents	1	3,870,163	3,870,163	3,510,420	3,510,420
Loans and advances to banks	2	9,129,391	9,129,391	13,628,078	13,628,078
Loans and advances to customers	3	40,460,458	40,473,343	27,638,193	27,635,217
Other financial assets	3	118,981	118,981	98,434	98,434
Total financial assets		**53,578,993**	**53,591,878**	**44,875,125**	**44,872,149**
LIABILITIES					
Due to others banks	2	1,225	1,225	132	132
Customer accounts	3	57,064,997	57,066,918	47,838,522	47,842,803

(In Ukrainian Hryvnias and in thousands)

Other borrowed funds	3	176	176	267	267
Provisions for loan commitments and financial guarantee contracts	3	298,908	298,908	279,484	279,484
Other financial liabilities	3	1,106,276	1,106,276	1,043,519	1,043,519
Total financial liabilities		**58,471,582**	**58,473,503**	**49,161,924**	**49,166,205**

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

The fair values of foreign currency denominated loans to individuals cannot be measured reliably, since, due to the regulatory limitations introduced by the National Bank of Ukraine, the market for those financial instruments during 2021 and 2020 was not available, and it is impracticable to obtain sufficient market data or apply any other valuation technique to such instruments. As at 31 December 2021 and 2020, the carrying amounts of such loans were UAH 13,637 thousand and UAH 37,588 thousand, respectively.

22. Capital management

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

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

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

(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:

Regulatory capital composition:

	31 December 2021	31 December 2020
Tier 1 capital	7,133,668	7,066,777
Additional capital	3,419,188	1,693,832
Deductions	(139,143)	(139,143)
Total regulatory capital	**10,413,713**	**8,621,466**

In accordance with the existing requirements to capital set by the National Bank of Ukraine, the Bank should maintain the minimum level of regulatory capital of UAH 200,000 thousand (ratio H1) and the ratio of regulatory capital to the risk weighted assets (capital adequacy ratio) at the level in excess of the obligatory minimum value of 10% (ratio H2). Also it is required to comply Tier 1 adequacy ratio, which defined as Tier 1 capital to the risk weighted assets at the level in excess of the obligatory minimum value of 7% (ratio H3). At present day, within the calculation of the minimum capital requirements, banks must keep capital only to cover credit risk and partially - market risk (in terms of open currency position) and operational risk.
Due to systemically importance status, Bank must meet tougher requirements designed to ensure the additional safety margin. In addition to the statutory value of capital adequacy, Bank should maintain conservation buffer and systematic importance buffer, which will take effect from the moment of the NBU corresponding decision.

As at 31 December 2021 and 2020, the Bank complied with the statutory requirements set by the National Bank of Ukraine.
Also, according to the results of the regular process of assessing financial stability and additional stress testing, which was conducted by the NBU in 2021, no additional requirements for regulatory capital were set by the NBU and testified that the Bank is ready for the planned increase in capital requirements, despite the impact of last year's crisis.

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

(In Ukrainian Hryvnias and in thousands)

23. Maturity analysis of assets and liabilities (continued)

	31 December 2020		
	Within one year	**More than one year**	**Total**
ASSETS			
Cash and cash equivalents	3,510,420	-	3,510,420
Loans and advances to banks	13,628,078	-	13,628,078
Loans and advances to customers	19,900,008	7,738,185	27,638,193
Investments in securities	11,175,498	1,328,177	12,503,675
Derivative financial assets	10,561	-	10,561
Investments in subsidiaries joint ventures and associates	-	139,143	139,143
Investment property	-	27,857	27,857
Current tax assets	-	90	90
Deferred tax assets	-	76,544	76,544
Intangible assets other than goodwill	-	358,631	358,631
Property plant and equipment	-	822,412	822,412
Other financial assets	98,434	-	98,434
Other nonfinancial assets	110,869	-	110,869
Total assets	**48,433,868**	**10,491,039**	**58,924,907**
LIABILITIES			
Due to others banks	132	-	132
Customer accounts	14,398,841	33,439,681	47,838,522
Derivative financial liabilities	844	-	844
Other borrowed funds	267	-	267
Provisions for loan commitments and financial guarantee contracts	279,484	-	279,484
Other financial liabilities	1,043,519	-	1,043,519
Other nonfinancial liabilities	109,274	-	109,274
Current tax liabilities	81,304	-	81,304
Total liabilities	**15,913,665**	**33,439,681**	**49,353,346**
Net amount	**32,520,203**	**(22,948,642)**	**9,571,561**

24. Risk management policies

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

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

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

24. Risk management policies (continued)

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

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

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

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

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

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

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

24. Risk management policies (continued)

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

- Overdue payments for the period of over 30 calendar days;
- Restructuring;
- A substantial devaluation of the national currency against the exposure currency without relevant foreign currency denominated collateral;
- Deterioration of the financial asset's rating to the specified level/to the relevant level or, in comparison with the historical value, to the determined level;
- In the case of Retail Business mortgage loans, the debt-to-collateral value (LTV) ratio exceeds a predetermined indicator or compared to the historical value, it deteriorates to a predetermined degree;
- Existing default indicators under other financial assets of the Retail Business borrower;
- As a result of the monitoring process with the use of the Early Warning system, financial assets of the Corporate Business borrower are assigned a worse risk status;
- A borrower's business line "Corporate clients" belonging to the industries that have significantly suffered from Covid-19 pandemic.

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 2021, the Bank determined three main scenarios:

Forecast (scenario 2)

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

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

Mild stress (scenario 4)

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

- **Real GDP:**

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

Severe stress (scenario 5)

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

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

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

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

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical 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 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.

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

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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

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

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

				As at 31 December 2020
Loans and advances to legal entities	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	19,499,073	494,898	1,013,635	26,520
LEVEL 2	18,174	7,640	109,071	-
LEVEL 3	-	35,425	13,984	-
LEVEL 4	-	4,847	25,529	-
LEVEL 5 (default)	-	-	443,941	86,422
Total	19,517,247	542,810	1,606,160	112,942

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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

				As at 31 December 2020
Loans and advances to individuals	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	6,125,569	1,219,507	111,124	275,585
LEVEL 2	34,320	105,352	16,477	12,352
LEVEL 3	-	70,374	15,583	5,957
LEVEL 4	-	37,980	5,397	523
LEVEL 5 (default)	-	-	1,482,963	53,755
Total	**6,159,889**	**1,433,213**	**1,631,544**	**348,172**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

			As at 31 December 2020
Other financial assets	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**
LEVEL 1	98,898	-	-
LEVEL 2	452	-	-
LEVEL 3	-	49	-
LEVEL 4	-	209	-
LEVEL 5 (default)	-	-	29,672
Total	**99,350**	**258**	**29,672**

Gross carrying value of loans and advances to banks, investments in securities as at 31 December 2021 and 2020 was at Stage 1 and Level 1.

The following tables analyze information on significant changes in gross carrying value of loans and advances to customers, financial guarantees issued and similar commitments during the period, as well as movements in respective expected losses during the years ended 31 December 2021 and 2020 by classes of financial assets. Movements in expected credit losses by the items of due from banks, investments measured at fair value through other comprehensive income, investments measured at amortized cost, and other financial assets are not material for the purpose of these separate financial statements.

As at 31 December 2021 and 2020, the effect of foreign exchange rate fluctuations on changes in expected credit losses of financial instruments that are covered by impairment requirements under IFRS 9, the amount to UAH 56,256 thousand (loss) and UAH 502,822 thousand (gain), respectively.

During the years ended 31 December 2021 and 2020, the effect of foreign exchange rate fluctuations on changes in provisions for covering expected credit losses of contingent liabilities and loan commitments, the amount to UAH 5,124 thousand (increase/loss) and UAH 4,300 thousand (decrease/gain), respectively.

During the years ended 31 December 2021 and 2020, the Bank received income from the return of previously written off loans and advances to customers, the amount to UAH 164,432 thousand and UAH 1,596 thousand, respectively, which was recognized in the statement items " Impairment gains and reversals of impairment losses (impairment losses) determined in accordance with IFRS 9".

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

As at 31 December 2021 and 2020, 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
31 December 2020	**1,198**
New loans to banks or purchased loans	43,503
Loans to banks derecognized during the reporting period	(1,198)
31 December 2021	**43,503**

Loans and advances to banks – change in expected credit losses by Stages	Stage 1 12-months ECLs
31 December 2019	**749**
New loans to banks or purchased loans	1,198
Loans to banks derecognized during the reporting period	(749)
31 December 2020	**1,198**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to 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 2019	**15,454,260**	**1,508,311**	**2,068,003**	**216,551**	**19,247,125**
New loans or purchased loans	17,858,774	232,277	91,038	-	18,182,089
Transfer from Stage 1, 12-month ECLs	(273,588)	(242,123)	75,893	-	(439,818)
Transfer from Stage 2, Lifetime ECLs	211,329	(71,058)	26,673	-	166,944
Transfer from Stage 3, Lifetime ECLs	(81,474)	(26,386)	(230,313)	-	(338,173)
Loans derecognized during the reporting period	(13,790,402)	(858,226)	(180,845)	(103,687)	(14,933,160)
Loans sold and written off during the reporting period	-	-	(537,958)	-	(537,958)
Restructured loans	138,363	-	293,670	-	432,033
Effect of other changes	-	-	-	77	77
31 December 2020	**19,517,262**	**542,795**	**1,606,161**	**112,941**	**21,779,159**

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

(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 2019	**6,541,423**	**905,406**	**2,483,817**	**483,567**	**10,414,213**
New loans or purchased loans	3,743,989	339,744	159,976	-	4,243,709
Transfer from Stage 1, 12-month ECLs	(238,874)	519,376	194,157	-	474,659
Transfer from Stage 2, Lifetime ECLs	(486,904)	(42,493)	28,637	-	(500,760)
Transfer from Stage 3, Lifetime ECLs	(153,372)	(23,031)	687,854	-	511,451
Loans derecognized during the reporting period	(3,324,418)	(279,931)	(172,579)	(105,275)	(3,882,203)
Loans sold and written off during the reporting period	-	-	(1,750,346)	-	(1,750,346)
Restructured loans	78,030	14,157	28	32	92,247
Effect of other changes	-	-	-	(30,152)	(30,152)
31 December 2020	**6,159,874**	**1,433,228**	**1,631,544**	**348,172**	**9,572,818**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Loans and advances to 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 2019	**100,134**	**118,257**	**1,281,308**	**(17,249)**	**1,482,450**
New loans or purchased loans	425,464	49,540	77,781	-	552,785
Transfer from Stage 1, 12-month ECLs	20,142	14,277	58,321	-	92,740
Transfer from Stage 2, Lifetime ECLs	8,214	36,095	19,829	-	64,138
Transfer from Stage 3, Lifetime ECLs	(509)	(4,669)	45,718	-	40,540
Loans derecognized during the reporting period	(89,349)	(71,936)	10,485	(185)	(150,985)
Loans sold and written off during the reporting period	-	-	(537,958)	-	(537,958)
Restructured loans	896	-	35,425	-	36,321
Adjustment of interest income	-	-	87,586	-	87,586)
Effect of changes in models or risk parameters, other changes	-	-	-	3,341	3,341
31 December 2020	**464,992**	**141,564**	**1,078,495**	**(14,093)**	**1,670,958**

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

(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 2019	**131,250**	**144,426**	**2,251,172**	**340,647**	**2,867,495**
New loans or purchased loans	110,543	54,364	114,742	-	279,649
Transfer from Stage 1, 12-month ECLs	9,966	73,980	148,800	-	232,746
Transfer from Stage 2, Lifetime ECLs	(8,151)	21,142	44,365	-	57,356
Transfer from Stage 3, Lifetime ECLs	(2,826)	7,049	439,909	-	444,132
Loans derecognized during the reporting period	(66,209)	(45,452)	(95,560)	(79,113)	(286,334)
Loans sold and written off during the reporting period	-	-	(1,750,346)	-	(1,750,346)
Restructured loans	2,099	1,756	21	12	3,888
Adjustment of interest income	-	-	248,720	-	248,720
Effect of changes in models or risk parameters, other changes	-	-	-	(54,481)	(54,481)
31 December 2020	**176,672**	**257,265**	**1,401,823**	**207,065**	**2,042,825**

As at 31 December 2021 and 2020, the gross carrying value of investments in securities was classified as Stage 1 for the measures of expected credit losses.

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Investments measured at fair value through other comprehensive income– change in expected credit losses by Stages	Stage 1 12-months ECLs
31 December 2019	**35,690**
New investments	144,629
Investments sold and written off during the reporting period	(74,378)
Effect of other changes	3,386
31 December 2020	**109,327**

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

Other financial assets – change in gross carrying value by Stages	Stage 1 12-months ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Total
31 December 2019	**145,415**	**12,186**	**16,114**	**173,715**
New assets	10,396	68	3,373	13,837
Transfer from Stage 1, 12-month ECLs	(5,404)	(405)	292	(5,517)
Transfer from Stage 2, Lifetime ECLs	184	1	7,050	7,235
Transfer from Stage 3, Lifetime ECLs	(115)	(10,451)	12,722	2,156
Assets derecognized during the reporting period	(40,566)	(1,140)	(9,879)	(51,585)
31 December 2020	**109,910**	**259**	**29,672**	**139,841**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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

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 2019	**10,687**	**2,125**	**7,704**	**20,516**
New assets	3,415	12	4,072	7,499
Transfer from Stage 1, 12-month ECLs	2,833	8	361	3,202
Transfer from Stage 2, Lifetime ECLs	61	5	7,050	7,116
Transfer from Stage 3, Lifetime ECLs	28	(1,998)	3,845	1,875
Assets derecognized during the reporting period	(4,121)	(81)	(4,461)	(8,663)
Other assets written off during the reporting period	-	-	(699)	(699)
31 December 2020	**12,903**	**71**	**17,872**	**30,846**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Financial guarantees – change in 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 2019	**1,797,637**	**-**	**250**	**1,797,887**
New guarantees	1,196,401	8,255	-	1,204,656
Transfer from Stage 1, 12-month ECLs	255,712	121,307	-	377,019
Transfer from Stage 2, Lifetime ECLs	(103,704)	-	-	(103,704)
Guarantees derecognized during the reporting period	(572,675)	-	-	(572,675)
31 December 2020	**2,573,371**	**129,562**	**250**	**2,703,183**

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

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 2019	**11,548**	**-**	**2**	**11,550**
New guarantees	28,468	1,544	-	30,012
Transfer from Stage 1, 12-month ECLs	25,501	22,686	-	48,187
Transfer from Stage 2, Lifetime ECLs	(672)	-	-	(672)
Transfer from Stage 3, Lifetime ECLs	-	-	155	155
Guarantees derecognized during the reporting period	(3,680)	-	-	(3,680)
31 December 2020	**61,165**	**24,230**	**157**	**85,552**

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

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

Import letters of credit – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs
31 December 2019	**424,512**
New letters of credit	238,482
Letters of credit derecognized during the reporting period	(424,512)
31 December 2020	**238,482**

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

Import letters of credit – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs
31 December 2019	**2,750**
New letters of credit	5,682
Letters of credit derecognized during the reporting period	(2,750)
31 December 2020	**5,682**

(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 3 Lifetime ECLs	Total
31 December 2020	**29,549**	**-**	**29,549**
New avals	60,624	25,000	85,624
Avals derecognized during the reporting period	(29,549)	-	(29,549)
31 December 2021	**60,624**	**25,000**	**85,624**

Avals – change in gross carrying value of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs
31 December 2019	**91,993**
New avals	29,549
Avals derecognized during the reporting period	(91,993)
31 December 2020	**29,549**

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

Avals – change in expected credit losses by Stages of financial instruments covered by impairment requirements under IFRS 9	Stage 1 12-months ECLs
31 December 2019	**596**
New avals	704
Avals derecognized during the reporting period	(596)
31 December 2020	**704**

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

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 2019	**6,860,818**	**93,998**	**16,514**	**6,971,330**
New undrawn loan commitments	3,788,587	40,888	902	3,830,377
Transfer from Stage 1, 12-month ECLs	(1,152,586)	141,905	415	(1,010,266)
Transfer from Stage 2, Lifetime ECLs	(188,584)	(2,237)	489	(190,332)
Transfer from Stage 3, Lifetime ECLs	(7,564)	(3,086)	(507)	(11,157)
Undrawn loan commitments derecognized during the reporting period	(2,634,039)	(27,896)	(14,580)	(2,676,515)
31 December 2020	**6,666,632**	**243,572**	**3,233**	**6,913,437**

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

(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 2019	**49,542**	**12,964**	**5,118**	**67,624**
New undrawn loan commitments	90,496	6,031	1,062	97,589
Transfer from Stage 1, 12-month ECLs	32,560	(1,485)	345	31,420
Transfer from Stage 2, Lifetime ECLs	1,190	(333)	222	1,079
Transfer from Stage 3, Lifetime ECLs	(41)	(201)	(112)	(354)
Undrawn loan commitments derecognized during the reporting period	(10,387)	(2,594)	(4,517)	(17,498)
31 December 2020	**163,360**	**14,382**	**2,118**	**179,860**

The table below analyzes the effect of modifications on financial assets measured at amortized cost or fair value through other comprehensive income for the years ended 31 December 2021 and 2020:

	2021	2020
Amortized cost of financial assets before modification (Lifetime ECLs)	848,450	1,487,442
Net loss on modification of financial assets	(11,209)	(18,917)
Gross carrying value of modified financial assets, at the end of the reporting period, transferred to 12-month ECLs	113,888	428,512

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, 2021 and 2020, 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 2021 Total
FINANCIAL ASSETS				
Cash and cash equivalents	3,870,163	-	-	3,870,163
Loans and advances to banks	492,085	265,902	8,371,404	9,129,391
Loans and advances to customers	40,460,458	-	-	40,460,458
Investments in securities				
Investments measured at fair value through other comprehensive income	7,671,679	-	-	7,671,679
Investments measured at amortized cost	6,956,240	-	-	6,956,240
Derivative financial assets	1,243	-	7,133	8,376
Other financial assets	118,981	-	-	118,981
TOTAL FINANCIAL ASSETS	**59,570,849**	**265,902**	**8,378,537**	**68,215,288**
FINANCIAL LIABILITIES				
Due to others banks	-	2	1,223	1,225
Customer accounts	56,375,799	232,166	457,032	57,064,997
Derivative financial liabilities	4	-	-	4
Other borrowed funds	176	-	-	176
Other financial liabilities				
Lease liabilities	450,168	-	-	450,168
Other financial liabilities	653,600	-	2,508	656,108
TOTAL FINANCIAL LIABILITIES TOTAL FINANCIAL LIABILITIES	**57,479,747**	**232,168**	**460,763**	**58,172,678**
NET POSITION	**2,091,102**	**33,734**	**7,917,774**	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Ukraine	Non-OECD countries	OECD countries	31 December 2020 Total
FINANCIAL ASSETS				
Cash and cash equivalents	3,510,420	-	-	3,510,420
Loans and advances to banks	58,176	178,833	13,391,069	13,628,078
Loans and advances to customers	27,637,206	719	268	27,638,193
Investments in securities				
Investments measured at fair value through other comprehensive income	6,602,257	-	-	6,602,257
Investments measured at amortized cost	5,901,418	-	-	5,901,418
Derivative financial assets	10,561	-	-	10,561
Other financial assets	95,806	-	2,628	98,434
TOTAL FINANCIAL ASSETS	**43,815,844**	**179,552**	**13,393,965**	**57,389,361**
FINANCIAL LIABILITIES				
Due to others banks	1	2	129	132
Customer accounts	46,836,723	461,278	540,521	47,838,522
Derivative financial liabilities	844	-	-	844
Other borrowed funds	267	-	-	267
Other financial liabilities				
Lease liabilities	450,684	-	-	450,684
Other financial liabilities	589,156	-	3,679	592,835
TOTAL FINANCIAL LIABILITIES TOTAL FINANCIAL LIABILITIES	**47,877,675**	**461,280**	**544,329**	**48,883,284**
NET POSITION	**(4,061,831)**	**(281,728)**	**12,849,636**	

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.

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

24. Risk management policies (continued)

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

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

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

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

24. Risk management policies (continued)

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

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

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

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

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

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	31 December 2021 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and cash equivalents	3,870,163	-	-	-	-	3,870,163
Loans and advances to banks	9,129,391	-	-	-	-	9,129,391
Loans and advances to customers	6,464,056	7,963,672	16,471,366	8,515,054	1,046,310	40,460,458
Investments in securities						
Investments measured at fair value through other comprehensive income	111,262	873,896	3,707,284	2,976,246	2,991	7,671,679
Investments measured at amortized cost	6,906,494	49,746	-	-	-	6,956,240
Other financial assets	118,981	-	-	-	-	118,981
Total non-derivative financial assets	**26,600,347**	**8,887,314**	**20,178,650**	**11,491,300**	**1,049,301**	**68,206,912**
Derivative financial assets	8,376	-	-	-	-	8,376
TOTAL FINANCIAL ASSETS	**26,608,723**	**8,887,314**	**20,178,650**	**11,491,300**	**1,049,301**	**68,215,288**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to others banks	1,225	-	-	-	-	1,225
Customer accounts	52,698,659	1,921,593	2,271,291	158,243	15,212	57,064,998
Other borrowed funds	176	-	-	-	-	176
Other financial liabilities						
Lease liabilities	23,053	14,429	79,675	188,552	144,459	450,168
Other financial liabilities	656,108	-	-	-	-	656,108
Loan commitments (off-balance):						
Financial guarantees issued and similar commitments	3,194,318	-	-	-	-	3,194,318
Undrawn loan commitments	9,772,028	-	-	-	-	9,772,028
Total non-derivative financial liabilities	**66,345,567**	**1,936,022**	**2,350,966**	**346,795**	**159,671**	**71,139,021**
Derivative financial liabilities	4	-	-	-	-	4
TOTAL FINANCIAL LIABILITIES	**66,345,571**	**1,936,022**	**2,350,966**	**346,795**	**159,671**	**71,139,025**
Liquidity gap	(39,736,848)	6,951,292	17,827,684	11,144,505	889,630	
Cumulative liquidity gap	(39,736,848)	(32,785,557)	(14,957,872)	(3,813,368)	(2,923,737)	

(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 2020 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and cash equivalents	3,510,420	-	-	-	-	3,510,420
Loans and advances to banks	13,628,078	-	-	-	-	13,628,078
Loans and advances to customers	4,607,967	6,052,672	10,160,726	6,019,361	797,467	27,638,193
Investments in securities						
Investments measured at fair value through other comprehensive income	47,554	2,222,473	3,004,053	1,327,224	953	6,602,257
Investments measured at amortized cost	5,901,418	-	-	-	-	5,901,418
Other financial assets	98,434	-	-	-	-	98,434
Total non-derivative financial assets	**27,793,871**	**8,275,145**	**13,164,779**	**7,346,585**	**798,420**	**57,378,800**
Derivative financial assets	10,561	-	-	-	-	10,561
TOTAL FINANCIAL ASSETS	**27,804,432**	**8,275,145**	**13,164,779**	**7,346,585**	**798,420**	**57,389,361**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to others banks	132	-	-	-	-	132
Customer accounts	47,769,203	26,874	42,384	61	-	47,838,522
Other borrowed funds	267	-	-	-	-	267
Other financial liabilities						
Lease liabilities	22,321	8,757	62,697	180,868	176,041	450,684
Other financial liabilities	592,835	-	-	-	-	592,835
Loan commitments (off-balance):						
Financial guarantees issued and similar commitments	2,879,278	-	-	-	-	2,879,278
Undrawn loan commitments	6,733,577	-	-	-	-	6,733,577
Total non-derivative financial liabilities	**57,997,613**	**35,631**	**105,081**	**180,929**	**176,041**	**58,495,295**
Derivative financial liabilities	844	-	-	-	-	844
TOTAL FINANCIAL LIABILITIES	**57,998,457**	**35,631**	**105,081**	**180,929**	**176,041**	**58,496,139**
Liquidity gap	(30,194,025)	8,239,514	13,059,698	7,165,656	622,379	
Cumulative liquidity gap	(30,194,025)	(21,954,511)	(8,894,813)	(1,729,157)	(1,106,778)	

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

Liquidity gap, which arose as at 31 December 2021 and 2020 on assets and liabilities with maturities less than one year, is appropriately managed by the Bank.

Call 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 2021 and 2020, the stable part of customers’ accounts as at year end less standard deviation of deposits for the last three years, amounted to UAH 44,448,135 thousand and UAH 33,439,621 thousand, respectively.

Thus, as at 31 December 2021 and 2020 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 29,490,263 thousand and UAH 24,544,808 thousand, respectively.

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

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

(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 2020 Total
Liquidity gap	(30,194,025)	8,239,514	13,059,698	7,165,656	622,379	
Cumulative liquidity gap	(30,194,025)	(21,954,511)	(8,894,813)	(1,729,157)	(1,106,778)	
Stable portfion of customer accounts	33,439,621			(33 439 621)		-
Customer accounts adjusted	14,329,582	26,874	42,384	33,439,682	-	47,838,522
Liquidity gap adjusted	3,245,596	8,239,514	13,059,698	(26,273,965)	622,379	
Cumulative liquidity gap adjusted	3,245,596	111,485,110	24,544,808	(1,729,157)	(1,106,778)	

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 indicates the total remaining contractual payments (including interest payments), which are not recognized in the separate statement of financial position under the effective interest rate method.

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

(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 123,551 thousand in 2021 and UAH 253,397 thousand in 2020.

	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 2020 Total
FINANCIAL LIABILITIES						
Due to others banks	132	-	-	-	-	132
Customer accounts	47,646,714	27,562	43,680	66	-	47,718,022
Other borrowed funds	267	-	-	-	-	267
Other financial liabilities						
Lease liabilities	22,321	17,466	86,360	252,967	215,575	594,689
Other financial liabilities	592,835	-	-	-	-	592,835
Financial guarantees issued and similar commitments	2,879,278	-	-	-	-	2,879,278
Undrawn loan commitments	6,733,577	-	-	-	-	6,733,577
Total non-derivative financial liabilities	**57,875,124**	**45,028**	**130,040**	**253,033**	**215,575**	**58,518,800**
Forward contracts, net amount	844	-	-	-	-	844
Amount due under the contract	131,226	-	-	-	-	131,226
The amount under the contract to be received	(130,382)	-	-	-	-	(130,382)
Derivative financial liabilities	**844**	**-**	**-**	**-**	**-**	**844**
TOTAL FINANCIAL LIABILITIES	**57,875,968**	**45,028**	**130,040**	**253,033**	**215,575**	**58,519,644**

24. Risk management policies (continued)

Market risk

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

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

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

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

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

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

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

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

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

24. Risk management policies (continued)

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

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

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

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

The Bank's Risk Appetite Statement for 2021, 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 2021 and 2020 was as follows:

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

					31 December 2020, (%)
	UAH	USD	EUR	Other currencies	Interest rate
FINANCIAL ASSETS					
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	14.80	4.22	4.56	5.58	Fixed/variable
Investments in securities					
Investments measured at fair value through other comprehensive income	14.05	5.52	2.20	-	Fixed
Investments measured at amortized cost	5.54	-	-	-	Fixed
FINANCIAL LIABILITIES					
Due to others banks	-	-	-	-	-
Other borrowed funds	-	-	-	-	-
Customer accounts:					
Current accounts and deposits repayable on demand	2.93	0.02	0.01	-	Fixed/variable
Term deposits	7.18	0.47	0.04	0.01	Fixed
Lease liabilities	13.89	7.39	2.57	-	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 2021				
	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Total**
Impact on interest income					
Interest-bearing assets	28,257,350	7,556,398	17,781,485	9,825,337	63,420,570
including: fixed rate	13,718,743	7,279,424	16,285,221	9,825,337	47,108,725
variable rate	14,538,607	276,974	1,496,264	-	16,311,845
Interest-bearing liabilities	52,680,343	1,941,257	2,340,623	506,624	57,468,847
including: fixed rate	42,897,974	1,941,257	2,340,623	506,624	47,686,478
variable rate	9,782,369	-	-	-	9,782,369
GAP	(24,422,994)	5,615,141	15,440,863	9,318,713	5,951,723
including: fixed rate	(29,179,231)	5,338,167	13,944,599	9,318,713	(577,752)
variable rate	4,756,237	276,974	1,496,264	-	6,529,475
Impact of changes in interest rates on net interest income:					
+100 b.p.	**(233,859)**	**46,690**	**57,745**	**-**	(129,424)
including: fixed rate	(279,401)	44,387	52,149	-	(182,865)
variable rate	45,542	2,303	5,596	-	53,441
-100 b.p.	**233,859**	**(46,690)**	**(57,745)**	**-**	129,424
including: fixed rate	279,401	(44,387)	(52,149)	-	182,865
variable rate	(45,542)	(2,303)	(5,596)	-	(53,441)

(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	Total
					31 December 2020
Impact on interest income					
Interest-bearing assets	27,680,393	7,279,058	12,209,521	6,177,776	53,346,748
including: fixed rate	19,090,406	6,977,159	11,186,932	6,177,776	43,432,273
variable rate	8,589,987	301,899	1,022,589	-	9,914,475
Interest-bearing liabilities	47,718,847	26,383	42,058	60	47,787,348
including: fixed rate	44,610,296	26,383	42,058	60	44,678,797
variable rate	3,108,551	-	-	-	3,108,551
GAP	(20,038,454)	7,252,675	12,167,463	6,177,716	5,559,400
including: fixed rate	(25,519,890)	6,950,776	11,144,874	6,177,716	(1,246,524)
variable rate	5,481,436	301,899	1,022,589	-	6,805,924
Impact of changes in interest rates on net interest income:					
+100 b.p.	**(191,875)**	**60,306**	**45,503**	-	(86,066)
including: fixed rate	(244,362)	57,796	41,679	-	(144,887)
variable rate	52,487	2,510	3,824	-	58,821
-100 b.p.	**191,875**	**(60,306)**	**(45,503)**	-	86,066
including: fixed rate	244,362	(57,796)	(41,679)	-	144,887
variable rate	(52,487)	(2,510)	(3,824)	-	(58,821)

The following table presents the sensitivity analysis of the change in fair value of investments measured 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 2021		As at 31 December 2020	
	Discount rate +1	Discount rate -1	Discount rate +1	Discount rate - 1
Change in fair value of investments measured at FVTOCI	(44,914)	45,541	(25,765)	24,435
Impact on other comprehensive income/loss and equity	**(44,914)**	**45,541**	**(25,765)**	**24,435**

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

(In Ukrainian Hryvnias and in thousands)

24. Risk management policies (continued)

	UAH	USD	EUR	Other currencies	Precious metals	31 December 2020 Total
FINANCIAL ASSETS						
Cash and cash equivalents	2,915,602	331,074	242,293	21,451	-	3,510,420
Loans and advances to banks	1,755	8,167,602	5,048,477	380,658	29,586	13,628,078
Loans and advances to customers	21,024,084	5,432,325	1,165,084	16,700	-	27,638,193
Investments in securities						
Investments measured at fair value through other comprehensive income	4,764,286	1,574,240	263,731	-	-	6,602,257
Investments measured at amortized cost	5,901,418	-	-	-	-	5,901,418
Other financial assets	92,432	4,686	1,316	-	-	98,434
TOTAL FINANCIAL ASSETS	**34,699,577**	**15,509,927**	**6,720,901**	**418,809**	**29,586**	**57,378,800**
FINANCIAL LIABILITIES						
Due to others banks	6	126	-	-	-	132
Customer accounts	26,038,820	14,670,707	6,697,517	396,794	34,684	47,838,522
Other borrowed funds	267	-	-	-	-	267
Other financial liabilities						
Lease liabilities	116,623	333,545	516	-	-	450,684
Other financial liabilities	545,205	20,809	23,140	3,681	-	592,835
TOTAL FINANCIAL LIABILITIES	**26,700,921**	**15,025,187**	**6,721,173**	**400,475**	**34,684**	**48,882,440**
CURRENCY POSITION	**7,998,656**	**484,740**	**(272)**	**18,334**	**(5,098)**	
Accounts payable on contracts with derivative financial instruments	-	(598,008)	-	-	(35,073)	(633,081)
Accounts receivable on contracts with derivative financial instruments	607,816	34,982	-	-	-	642,798
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**607,816**	**(563,026)**	**-**	**-**	**(35,073)**	
NET POSITION	**8,606,472**	**(78,286)**	**(272)**	**18,334**	**(40,171)**	

(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 2020: 10%) increase and decrease in USD and EUR official exchange rate against UAH. 10% (31 December 2020: 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 2020: 10%) change in foreign currency rates.

	31 December 2021		31 December 2020	
	UAH/USD +10	UAH/USD -10	UAH/USD +10	UAH/USD -10
Impact on profit or loss and equity	730	(730)	(6,419)	6,419

	31 December 2021		31 December 2020	
	UAH/EUR +10	UAH/EUR -10	UAH/EUR +10	UAH/EUR -10
Impact on profit or loss and equity	3,520	(3,520)	(22)	22

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.

25. Subsequent events

On February 24, 2022, the Russian Federation announced a military operation allegedly aimed at "demilitarization and denazification of Ukraine", which led to another escalation of the Russian-Ukrainian conflict, military action by Russian troops in eastern, southern and northern Ukraine with significant damage to civilian infrastructure , residential and office real estate, complete blocking of seaports of Ukraine. This, among other things, led to mass shutdowns of enterprises and companies in the territory of active hostilities, adjacent territories, and, in some cases, in the rest of Ukraine due to broken supply chains, damage or blockage of transport routes, falling demand. The decree of the President of Ukraine imposed martial law on the territory of Ukraine starting from February 24, 2022, which was extended until August 23, 2022. The international community has expressed unequivocal support for Ukraine by imposing a number of important sanctions on the Russian Federation.

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

On April 13, 2022, the Law of Ukraine “On Amendments to Certain Laws of Ukraine on Ensuring the Stability of the Deposit Guarantee System for Individuals” No. 2180-IX of April 1, 2022 came into force. According to this law, during the martial law in Ukraine and three months after the martial law termination or cancellation in Ukraine, the Deposit Guarantee Fund will guarantee 100% of each deposit in a bank-participant. After the expiry of the three-month period from the date of the martial law termination or cancellation in Ukraine the maximum amount of the deposit reimbursement will constitute at least UAH 600 thousand.

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

The economic situation in Ukraine and the impact of events on the Bank's financial activities will largely depend on restraining the advance of Russian occupation forces in Ukraine, government decisions and the support of the international community. In turn, the Bank's management makes timely decisions and assesses possible risks in accordance with internal policies.

Thus, with the introduction of martial law in the country, at the meeting of the ALCO of the Bank, held on February 24, 2022, a number of decisions were made to ensure the Bank's compliance with prudential ratios and ability to continue its activities. including activation of the Bank Recovery Plan and the Anti-Crisis Action Plan.

25. Subsequent events (continued)

Operations:

People: employees, other than branch network has shifted to maximum remote work and had been relocated toward Western part of Ukraine and to other countries of OTP Group operations to facilities rented by the Bank or other member of the Group.
Branch network: branch network functions based on security considerations and clients' demand, that it is mostly West, Center, Nothern-Center and South-West, covering 70%+ of territory of Ukraine. No major casualties with branches and employees at branches so far. Branches in occupied territories and territories of active war action are frozen with assets at these branches, primarily cash balances, decreased to possible minimum.
Banking services: the Bank continues providing all banking services both in online and off-line mode, all critical banking systems and those outsourced payment services are functioning without interruptions. In addition to physical back-up data center, the Bank has launches a second back-up data center in cloud.
Liquidity:
The NBU's System of Electronic Payments functions in 24/7mode. Card processing and international payments services are functioning as usual as well. The Bank has not experienced "run on bank" (massive outflows of deposits), rather opposite, there has been increase of balance both by corporate and retail clients in local as well as foreign currency, naturally, mostly on current and saving accounts for the sake of ease-of-access to these funds. Loan-to-deposit ratio is balanced and is slightly below 100% for local currency and marginally above 50% for foreign currency. Both internal and regulatory liquidity limits or covenants are met and the Bank has excessive structural liquidity in foreign currency.
Credit risk:
As the part of activation of Recovery Plan, the Bank has put new lending on hold, with gradual re-start for specific purposes: payment of salaries and wages to client's employees, payment of taxes, duties and other obligatory payment, payment for items of critical import and similar items inside Ukraine, such as medicine, food retail, utilities and energy.
In the course of March and April the Bank has approved a lending framework for the support of agriculture with the involvement of risk sharing instruments of Ukrainian state and/or international financial institutions.
As a response to the war, the Bank, in similar fashion with other market participants, has offered "credit holidays" to debtors, providing grace on payment of principal and/or interests, which with high likelihood will remain in force for the period of validity of martial law. This action is neither a moratorium, nor any form of forgiveness, rather opportunity for debtors to settle their obligations with the delay without penalties or fines.
In addition, immediately after the imposition of martial law in Ukraine on February 25, 2022, waiting for possible outflow of funds from customer accounts and in order to maintain sufficient liquidity to meet its obligations and regulatory requirements of the NBU, UAH 2,000,000 thousand of blank refinancing loan was attracted at a rate of 11% per annum. This loan has been fully repaid by the Bank as of the date of these separate financial statements.

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

25. Subsequent events (continued)

Based on the Bank's preliminary estimates as at the date of issue of these separate financial statements, the impact on the Bank's results of operations has been determined due to both actual losses and revisions of estimates, such as estimates of provisions for expected credit losses (revision of macro scenarios, expected deterioration of the loan portfolio, damage to collateral, etc.).

According to preliminary estimates, the actual losses of the Bank's property for the period from February 24, 2022 (damage to real estate, office and other equipment) are not significant.

To assess the expected credit losses, the Bank conducted a detailed analysis, based on which the loan portfolio was divided into three zones in accordance with the conduct of hostilities:
- active zone (Donetsk, Luhansk, Zaporizhia, Kherson, Mykolaiv, Kharkiv, Sumy and Chernihiv regions);
- frontline zone (Kyiv, Kirovohrad, Odesa and Dnipropetrovsk regions);
- other regions.

In accordance with the analysis of the possible impact of hostilities and customer's contact, the Bank has revised the classification of loans and advances to customers by stages of credit risk as follows:
- for legal entities in accordance with the regional rating industrial model and according to individual analysis (state of business, mortgages, etc.) some clients (outstanding debt of UAH 8,259,738 thousand) was reclassified to stage 2 from stage 1;
- for individuals according to the regional rating model and according to calls to clients, some of clients (outstanding debt of UAH 1,887,933 thousand) was reclassified from stage 1 to stage 2 and some clients was classified to stage 3.

For transactions with domestic government bonds (DGB) and repo transactions, where DGB are collateral, the Bank has revised the probabilities of default and stages: securities at fair value through other comprehensive income (transactions with DGB) have been reclassified from stage 1 to stage 2.
Thus, the overall increase in allowance for expected credit losses during the first 5 months of 2022 amounted to UAH 2,853,599 thousand.

Further impact on the financial position and financial performance of the Bank is uncertain and depends on future events that are not under the direct control of the Bank. At the same time, the Bank has a sufficient liquidity position and noticeable excess of capital to ensure timely payment for all obligations to customers, including in the context of a possible increase in outflows of amounts due to customers associated with the aggravation of the Russian-Ukrainian military conflict and its impact on socio-economic situation in the country.