JOINT STOCK COMPANY
OTP BANK

Separate Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2020

JOINT STOCK COMPANY OTP BANK

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1–5
SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020:	
Separate statement of profit or loss and other comprehensive income	6
Separate statement of financial position	7
Separate statement of changes in equity	8
Separate statement of cash flows	9-10
Notes to the separate financial statements	
1. General information	11
2. Operating environment	12
3. Summary of significant accounting policies	13
4. Net interest income before allowance for expected credit losses on interest-bearing assets	30
5. Allowance for expected credit losses on interest-bearing assets	31
6. Fee and commission income and expense	32
7. Operating expense	32
8. Income taxes	33
9. Cash and balances with the National Bank of Ukraine	34
10. Due from banks	34
11. Loans to customers	35
12. Investments measured at fair value through other comprehensive income	39
13. Investments measured at amortized cost	39
14. Investments in subsidiary	39
15. Property and equipment and intangible assets	40
16. Right-of-use assets	41
17. Other assets	42
18. Due to banks and other financial institutions	42
19. Customer accounts	43
20. Lease liabilities	44
21. Other liabilities	45
22. Share capital, share premium, and other additional capital	45
23. Contingencies and contractual commitments	47
24. Related party transactions	48
25. Fair value of financial instruments	50
26. Capital management	52
27. Risk management policies	53

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INDEPENDENT AUDITOR’S REPORT

To the Shareholder 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 comprise the separate statement of financial position as at 31 December 2020, and the separate statement of profit or loss and other 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 separate financial position of the Bank as at 31 December 2020, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and the preparation of the separate financial statements requirements of the Law of Ukraine «On accounting and financial reporting in Ukraine» («Law on accounting and financial reporting»).

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’ *Code of Ethics for Professional Accountants* (the “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.

Key Audit Matters

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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Allowances for expected credit losses ("ECL") on loans to customers Allowances for ECL represent management's best estimate of the 12-months ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets at the reporting date. They are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for significant loans. The calculation of both collective and individual allowances for ECL is inherently judgmental. Collective ECL are calculated using statistical models, which approximate the impact of current and future economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management judgment and models revisions are required. For individual assessment, judgment is required to estimate the expected future cash flows scenarios related to that loan. In addition, management's judgement is required to assess whether significant increase of credit risk ("SICR") has occurred since initial recognition. Allowances for ECL is determined as a key audit matter due to significance of the loans to customers balance that amounted to UAH 27,638,193 thousand as at 31 December 2020, and significant judgements used in calculations, including influence of COVID-19 as discussed in Note 3, Note 11 and Note 27.	Our audit procedures have included the following: • Updating understanding of the Bank's processes and control procedures for determination of a significant increase in credit risk and event of default, assessment of the probability of default and measurement of expected credit losses on loans and advances to customers. • For collective ECL allowances, the appropriateness of changes to the modeling policy and methodology used for material portfolios was independently assessed with involvement of credit risk and actuarial experts by reference to IFRSs and market practices. We assessed the appropriateness of management's judgments in respect of calculation methodologies, segmentation, SICR identification, time period used for probability of default and recovery rates assessment, including macroeconomic adjustment and influence of COVID-19 on judgements used. We checked on a sample basis completeness and accuracy of historical data used as inputs in collective models and checked forward-looking assumptions to external macroeconomic forecasts. • For individual allowances, the appropriateness of provisioning methodologies was independently assessed for a sample of loans across the whole portfolio selected on the risk basis. An independent assessment was performed in respect of the amount of ECL recognized based on the detailed loan and counterparty information in the credit file. • We checked completeness and accuracy of the relevant notes to the separate financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, and corporate governance report (but does not include the separate financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the issuer's annual report, which also includes corporate governance report, which is expected to be made available to us after that date.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the issuer's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs and Law on accounting and financial reporting, 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

We have been appointed as auditor of the Bank by *Supervisory Board* on 16 September 2020. In view of the previous renewals and reappointments, we conducted audit from 28 September 2018 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the Supervisory Board.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, paragraph 4 of Law of Ukraine «On Audit of Financial Statements and Audit Activities» were not provided and that the audit engagement partner and audit firm remains independent of the Bank in conducting the audit.

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for preparation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with amendments) ("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 Management report has been prepared in accordance with the requirements of the Article IV of the Instruction No. 373 and the information in the Management report is consistent with the separate financial statements.
- We are required to report if we have identified material misstatements in the Management report in light of our knowledge and understanding of the Bank obtained during our audit of the Bank's separate financial statements. We have nothing to report in this respect.

Basic information about audit firm

Name: Limited Liability Company “Deloitte & Touche Ukrainian Services Company”.

Address of registration and location of the audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine.

“Limited Liability Company “Deloitte & Touche Ukrainian Services Company” was enrolled to Sections of “Audit Entities”, “Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements”, and “Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities” of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under # 1973.”

LLC „Deloitte & Touche USC“

Certified Auditor Natalia Samoilova

Auditor’s Certificate #0202
Issued by the Audit Chamber of Ukraine on 24 December 2014
on the basis of Resolution of the Audit Chamber of Ukraine # 304/2,
Registration Number in the Register of Auditors and Auditing Entities 102404

LLC “Deloitte & Touche Ukrainian Services Company”
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

29 March 2021

JOINT STOCK COMPANY OTP BANK

Separate Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020
(In Ukrainian Hryvnias and in thousands)

	Notes	2020	2019
Interest income	4, 24	4,962,915	5,092,574
Interest expense	4, 24	(1,386,122)	(1,653,327)
Net interest income before allowance for expected credit losses on interest-bearing assets	4	3,576,793	3,439,247
Fee and commission income	6, 24	1,684,106	1,696,120
Fee and commission expense	6, 24	(506,572)	(393,261)
Net gain on foreign exchange and precious metals operations	24	295,785	258,222
Net gain on transactions with derivative financial instruments	24	89,887	81,431
Net gain on investments measured at fair value through other comprehensive income		79,306	43,502
Net loss on modification of financial assets		(18,917)	(12,884)
Charge of allowance for expected credit losses on interest-bearing assets	5, 24	(836,210)	(145,694)
Charge of allowance for expected credit losses on other operations		(202,707)	(46,447)
Other income	24	104,883	162,643
Net non-interest income		**689,561**	**1,643,632**
Operating income		**4,266,354**	**5,082,879**
Operating expense	7, 24	(2,147,005)	(1,988,513)
Profit before income tax		**2,119,349**	**3,094,366**
Income tax expense	8	(385,627)	(557,610)
Net profit for the year		**1,733,722**	**2,536,756**
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of investments measured at fair value through other comprehensive income		63,364	(17,087)
Other comprehensive income/(loss)		**63,364**	**(17,087)**
Total comprehensive income for the year		**1,797,086**	**2,519,669**
Earnings per share			
Weighted average number of outstanding ordinary shares		499,238	499,238
Basic and diluted earnings per share, UAH		3,473	5,081

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

Volodymyr Mudryi,
Chairman of the Management Board

29 March 2021

Natalia Diuba,
Chief Accountant

29 March 2021

Україна * Акціонерне товариство * м. Київ * банк «ОТП» Ідентифікаційний код 21685166

The accompanying notes on pages from 11 to 76 form an integral part of these separate financial statements.

Joint Stock Company OTP Bank

Separate Statement of Financial Position
as at 31 December 2020
(In Ukrainian Hryvnias and in thousands)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and balances with the National Bank of Ukraine	9	3,510,420	3,139,593
Due from banks	10, 24	13,628,078	4,308,470
Loans to customers	11, 24	27,638,193	25,311,393
Investments measured at fair value through other comprehensive income	12	6,602,257	3,612,465
Investments measured at amortized cost	13	5,901,418	7,212,296
Investments in subsidiary	14	139,143	139,143
Property and equipment and intangible assets	15	734,358	568,882
Right-of-use assets	16	446,685	191,858
Current income tax assets		90	64
Deferred income tax assets	8	76,544	38,747
Investment property		27,857	28,152
Other assets	17, 24	219,864	230,260
TOTAL ASSETS		**58,924,907**	**44,781,323**
LIABILITIES			
Due to banks and other financial institutions	18, 24	399	567,801
Customer accounts	19, 24	47,838,522	35,401,926
Lease liabilities	20	450,684	174,425
Current income taxes payable		81,304	84,827
Other liabilities	21, 24	982,437	777,869
TOTAL LIABILITIES		**49,353,346**	**37,006,848**
EQUITY			
Share capital	22	6,186,023	6,186,023
Share premium	22	405,075	405,075
Other additional capital	22	1,236,294	1,236,294
Revaluation reserve for investments measured at fair value through other comprehensive income		113,960	50,596
Retained earnings/(accumulated deficit)		1,630,209	(103,513)
TOTAL EQUITY		**9,571,561**	**7,774,475**
TOTAL LIABILITIES AND EQUITY		**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,
Chairman of the Management Board

29 March 2021

Natalia Diuba,
Chief Accountant

29 March 2021

The accompanying notes on pages from 11 to 76 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 2020 *(In Ukrainian Hryvnias and in thousands)*

	Notes	Share capital	Share premium	Other additional capital	Revaluation reserve for investments measured at fair value through other comprehensive income	(Accumulated deficit)/ retained earnings	Total equity
31 December 2018		**6,186,023**	**405,075**	**1,236,294**	**67,683**	**(2,640,269)**	**5,254,806**
Change in fair value of investments measured at fair value through other comprehensive income		-	-	-	(17,087)	-	(17,087)
Net profit		-	-	-	-	2,536,756	2,536,756
31 December 2019		**6,186,023**	**405,075**	**1,236,294**	**50,596**	**(103,513)**	**7,774,475**
Change in fair value of investments measured at fair value through other comprehensive income		-	-	-	63,364	-	63,364
Net profit		-	-	-	-	1,733,722	1,733,722
31 December 2020		**6,186,023**	**405,075**	**1,236,294**	**113,960**	**1,630,209**	**9,571,561**

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

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

Volodymyr Mudryi,
Chairman of the Management Board

29 March 2021

Natalia Diuba,
Chief Accountant

29 March 2021

The accompanying notes on pages from 11 to 76 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 2020
(In Ukrainian Hryvnias and in thousands)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5,896,396	4,682,994
Interest paid		(1,396,911)	(1,581,563)
Fee and commission income received		1,684,106	1,696,120
Fee and commission expense paid		(506,572)	(393,261)
Net gain on foreign exchange and banking metals operations		200,024	234,258
Net gain on transactions with derivative financial instruments		80,170	84,424
Other income received		120,704	158,840
Operating expense paid		(1,873,304)	(1,698,789)
Cash flows from operating activities before movements in operating assets and liabilities		**4,204,613**	**3,183,023**
Changes in operating assets and liabilities:			
Decrease/(increase) in due from banks		473,403	(483,557)
Increase in loans to customers		(2,629,836)	(4,147,750)
Decrease/(increase) in other assets		17,321	(68,134)
(Decrease)/increase in due to banks and other financial institutions		(189,987)	187,026
Increase in customer accounts		9,191,551	10,434,482
(Decrease)/increase in other liabilities		(163,801)	160,849
Cash inflow from operating activities before income tax		**10,903,264**	**9,265,939**
Income taxes paid		(426,973)	(206,813)
Net cash inflow from operating activities		**10,476,291**	**9,059,126**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets		(307,289)	(197,413)
Proceeds on sale of property and equipment, intangible assets, and investment property		34,412	11,931
Purchase of investments measured at fair value through other comprehensive income		(39,510,646)	(36,760,367)
Proceeds on sale and repayment of investments measured at fair value through other comprehensive income		36,909,323	34,252,812
Purchase of investments measured at amortized cost		(508,551,359)	(112,055,300)
Proceeds on repayment of investments measured at amortized cost		509,850,000	108,521,000
Net cash outflow from purchase of an entity	14	-	(139,143)
Net cash outflow to investing activities		**(1,575,559)**	**(6,366,480)**

Separate Statement of Cash Flows
for the Year Ended 31 December 2020 (Continued)
(In Ukrainian Hryvnias and in thousands)

	Notes	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on borrowings from international financial institutions	18	-	367,935
Repayment of borrowings from international financial institutions	18	(367,982)	-
Repayment of lease liabilities		(147,237)	(154,803)
Net cash (outflow to)/inflow from financing activities		**(515,219)**	**213,132**
Effect of changes in foreign exchange rates on cash and cash equivalents		1,778,325	(758,703)
Net increase in cash and cash equivalents		10,163,838	2,147,075
Cash and cash equivalents, at the beginning of the year	**9**	**6,974,660**	**4,827,585**
Cash and cash equivalents, at the end of the year	**9**	**17,138,498**	**6,974,660**

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

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

Volodymyr Mudryi,	**Natalia Diuba,**
Chairman of the Management Board	Chief Accountant
29 March 2021	29 March 2021

The accompanying notes on pages from 11 to 76 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"). The permit of the Antimonopoly Committee of Ukraine was obtained on 15 August 2006. In accordance with Resolution of the Commission of the National Bank of Ukraine on Banking Supervision and Regulation # 266 dated 2 October 2006, OTP Bank Plc. also received the permission of the National Bank of Ukraine (the "NBU") on the purchase of 100% in the Bank's share capital.

On 7 November 2006, an entry was made to the State Register of Banks of Ukraine that recorded the revised Charter of Closed Joint Stock Company OTP Bank due to the change of the Bank's name from Joint Stock Commercial Bank Raiffeisenbank Ukraine to Closed Joint Stock Company OTP Bank. This event followed the completed procedure on the purchase by OTP Bank Plc. of Joint Stock Commercial Bank Raiffeisenbank Ukraine that was founded on the basis of Incorporation and Activities Agreement of Joint Stock Commercial Bank Raiffeisenbank Ukraine dated 13 November 1997 and the Decision of the Bank's Constituent Meeting dated 28 November 1997.

Pursuant to the requirements of the Law of Ukraine On Joint Stock Companies # 514-VI dated 17 September 2008, as subsequently amended, and in accordance with the Decision of the General Shareholders' Meeting dated 23 April 2009 (Minutes of the Meeting # 53), Closed Joint Stock Company OTP Bank changed its name to PUBLIC JOINT STOCK COMPANY OTP Bank.

In accordance with the Decision of the General Shareholders' Meeting dated 5 April 2018 (Minutes of the Meeting # 77), PUBLIC JOINT STOCK COMPANY OTP Bank changed the type of a joint stock company of JSC OTP Bank from public to private and, correspondingly, amended its name to JOINT STOCK COMPANY OTP Bank.

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 2020 and 2019, 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.

1. General information (continued)

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 86 non-accounting operational divisions (2019: 88 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 2020, the number of the Bank's employees was 3,205 persons (2019: 3,362 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.

The Bank's performance for the year of 2020 is disclosed in the notes to these separate financial statements.

2. Operating environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2020, the Ukrainian economy has contracted by around 4.4% of real GDP because of COVID-19 outbreak and respective national lockdown initiatives (2019: real GDP growth of around 3.2%), but sustained the modest annual inflation of 5.0% (2019: 4.1%), with a slight devaluation of the national currency (by around 4.4% to USD and 6.4% to EUR comparing to previous year averages).

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.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") in 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends and gradually decreased its discount rate for the first time during the recent two years, from 18.0% in April 2019 to 11.0% in January 2020. The discount rate was further decreased during 2020, with 6.0% valid from 12 June 2020.

2. Operating environment (continued)

The degree of macroeconomic uncertainty in Ukraine in 2020 still remains high due to a significant amount of public debt scheduled for repayment in 2021, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. 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").

Fitch's current rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings was stated as "B", revised from a positive to stable outlook in April 2020.

Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world, resulting in announcement of the pandemic status by the World Health Organization (the "WHO") in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have a significant impact on global financial markets. As the situation is rapidly evolving, it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to, such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Bank may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Bank's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

3. Summary of significant accounting policies

Statement of compliance. 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.

In maintaining its accounting records, the Bank is governed by the Ukrainian legislation. These separate financial statements have been prepared from the accounting records maintained in accordance with IFRS.

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 29 March 2021. The consolidated financial statements of JSC OTP Bank prepared under IFRS are available for public use 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 and shareholder is intending further development of the Bank's operations in Ukraine. Management believes that the going concern assumption is appropriate for the Bank's separate financial statements, considering its appropriate capital adequacy, the shareholder' intentions to support the Bank, and the historical experience which evidences that current liabilities will be refinanced in the normal course of business.

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 2020, but they have had no significant effect on the Bank:

Amendments to IFRS 3 "Business Combinations"	Definition of a business
Amendments to IAS 1 "Financial Statements Presentation" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors"	Definition of materiality
Amendments to Conceptual Framework in financial statements	Amendments to Conceptual Framework in IFRS
Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"	Basic Interest Rate Reform and its impact on the financial statements
Amendments to IFRS 16 "Leases"	COVID-19 related rent concessions

The application of the new Standards and Interpretations has not had any significant impact on the Bank's accounting policies that affect the amounts reported for the current and prior periods.

Significant accounting policies

Net interest income. Interest income and expense for all financial instruments are recognized in 'Net Interest Income' as 'Interest Income' and 'Interest Expense' 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.

3. Summary of significant accounting policies (continued)

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 this part 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.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, 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.

All recognized financial assets that are within the scope of IFRS 9 "Financial Instruments" are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect 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 to collect 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.

3. Summary of significant accounting policies (continued)

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.

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.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the 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 does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

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

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

3. Summary of significant accounting policies (continued)

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 from equity 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 subsequently reclassified to profit or loss, but transferred within 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 fair value option.

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, 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 De-recognition 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 due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- 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.

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 in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

Modification and de-recognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified 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.

When a financial asset is 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.

In the case where the financial asset is derecognized, the loss allowance for ECLs is re-measured at the date of de-recognition 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 de-recognition. The new financial asset will have a loss allowance measured based on 12-month ECLs, except, where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

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

3. Summary of significant accounting policies (continued)

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, 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 de-recognition, 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.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

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 de-recognition 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. The amounts of assets written off during the year ended 31 December 2020 are disclosed in Note 5.

3. Summary of significant accounting policies (continued)

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

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

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

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

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

De-recognition 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 re-measurement is presented in other revenue.

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.

3. Summary of significant accounting policies (continued)

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 and other comprehensive income 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. For the purposes of the separate statement of cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

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

Derivative financial instruments. In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank are not designated as hedges and do not qualify for hedge accounting. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value 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.

3. Summary of significant accounting policies (continued)

***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 and other comprehensive income 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 and other comprehensive income, except when it relates to items related directly to equity, in which case the deferred tax is also recognized within equity.

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 and other comprehensive income.

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

In 2020, the useful lives of property and equipment and intangible assets were reviewed, the useful lives of intangible assets were determined in accordance with the Provision on the Procedure of Accounting for Property and Equipment and Intangible Assets of JSC OTP Bank.

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

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

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

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

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

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

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

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 (other comprehensive income) in the Bank’s separate statement of financial position include a revaluation reserve which comprises changes in fair value of investments measured at fair value through other comprehensive income.

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Staff costs. 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. Staff costs include amounts of provision 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 2020 and 2019 used by the Bank in the preparation of the separate financial statements were as follows:

	31 December 2020	31 December 2019
UAH/USD 1	28.2746	23.6862
UAH/EUR 1	34.7396	26.4220

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.

(In Ukrainian Hryvnias and in thousands)

3. Summary of significant accounting policies (continued)

Adoption of new and revised IFRS. The Bank has not applied the following new and revised IFRS 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 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts”, and IFRS 16 “Leases” – Interest Rate Benchmark Reform: Phase 2	1 January 2021
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
Annual Improvements to IFRS 2018–2020 cycles – Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IAS 41 “Agriculture”, and IFRS 16 “Leases”	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. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank 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 2020, there was no active real estate market for certain types of buildings and constructions available, and the existing property valuation standards and rules do not contain the procedure for measuring the market value of the property, 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 25).

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. IFRS 9 requires accounting for financial instruments at 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.

(In Ukrainian Hryvnias and in thousands)

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.

4. Net interest income before allowance for expected credit losses on interest-bearing assets

Net interest income, before allowance for expected credit losses on interest-bearing assets, comprised:

	2020	2019
Interest income		
Interest income calculated by using the effective interest rate:		
Interest income on loans to customers	3,923,031	4,034,660
Interest income on investments measured at amortized cost	540,223	433,937
Interest income on investments measured at fair value through other comprehensive income	374,316	233,685
Interest income on reverse repurchase agreements	13,535	58,705
Interest income on due from banks	13,461	82,828
Total interest income calculated by using the effective interest rate	**4,864,566**	**4,843,815**
Other interest income:		
Interest income on finance leases	19,827	55,567
Other interest income	78,522	193,192
Total other interest income	**98,349**	**248,759**
Total interest income	**4,962,915**	**5,092,574**
Interest expense		
Interest expense calculated by using the effective interest rate:		
Interest expense on customer accounts	(1,313,171)	(1,596,079)
Interest expense on due to banks and other financial institutions	(48,443)	(25,553)
Total interest expense calculated by using the effective interest rate	**(1,361,614)**	**(1,621,632)**
Other interest expense:		
Interest expense on lease liabilities	(24,508)	(31,695)
Total interest expense	**(1,386,122)**	**(1,653,327)**
Net interest income before allowance for expected credit losses on interest-bearing assets	**3,576,793**	**3,439,247**

Interest income was accrued on the financial assets measured at amortized cost, other than interest income on the investments measured at fair value through other comprehensive income and finance leases receivables. Interest expense was accrued on the financial liabilities measured at amortized cost, other than interest expense on the lease liabilities.

(In Ukrainian Hryvnias and in thousands)

5. Allowance for expected credit losses on interest-bearing assets

Movements in allowance for expected credit losses on interest-bearing assets were as follows:

	Due from banks	Loans to customers	Investments measured at fair value through other comprehensive income	Total
31 December 2018	**1,290**	**5,672,162**	**31,664**	**5,705,116**
(Release)/charge of allowance for expected credit losses	(362)	128,916	17,140	145,694
Effect of foreign exchange fluctuations	(179)	(496,806)	(3,740)	(500,725)
Write-off of assets	-	(138,528)	-	(138,528)
Effect of loan sales	-	(818,668)	(9,374)	(828,042)
Adjustment of interest income	-	14,603	-	14,603
Other	-	(11,734)	-	(11,734)
31 December 2019	**749**	**4,349,945**	**35,690**	**4,386,384**
Charge of allowance for expected credit losses	355	690,438	145,417	836,210
Effect of foreign exchange fluctuations	94	502,822	2,598	505,514
Write-off of assets	-	(758,481)	-	(758,481)
Effect of loan sales	-	(1,033,525)	(74,378)	(1,107,903)
Adjustment of interest income	-	(37,415)	-	(37,415)
31 December 2020	**1,198**	**3,713,784**	**109,327**	**3,824,309**

Loans to customers sold to factoring companies are disclosed in Note 11.

(In Ukrainian Hryvnias and in thousands)

6. Fee and commission income and expense

Fee and commission income and expense comprised:

	2020	2019
Fee and commission income		
Settlement and cash operations with clients	742,104	781,500
Plastic cards operations	421,888	316,824
Foreign currency transactions	315,871	298,535
Guarantees issued	88,548	80,170
Income on insurance	77,756	53,084
Other income	37,939	166,007
Total fee and commission income	**1,684,106**	**1,696,120**
Fee and commission expense		
Plastic cards operations	(349,728)	(278,408)
Settlements	(93,293)	(58,554)
Agent fees	(33,152)	(31,564)
Other expense	(30,399)	(24,735)
Total fee and commission expense	**(506,572)**	**(393,261)**

7. Operating expense

Operating expense comprised:

	2020	2019
Staff costs	965,863	884,239
Depreciation and amortization	238,128	233,020
Salary related taxes and charges	178,805	161,196
Property and equipment maintenance	155,495	145,006
Contributions to Individual Deposit Guarantee Fund	125,232	97,642
Expense on customer acquisition	103,013	86,300
Software right-of-use costs	80,846	70,686
Advertising costs	64,427	49,293
Professional services	61,142	55,241
Communication services	39,807	25,113
Operating leases	13,103	13,181
Security expenses	12,732	13,223
Taxes, other than income tax	10,584	13,654
Write down of repossessed property to net realizable value	6,795	18,944
Other expense	91,033	121,775
Total operating expense	**2,147,005**	**1,988,513**

In 2020, the Bank received the following professional services from the auditing company, except for statutory audit services, namely: review of the reporting package for nine months ended 30 September 2020, audit of the reporting package for the year 2020, services for assessing the quality of the Bank’s active banking operations, audit of the banking group financial statements, review of compliance report with covenants.

(In Ukrainian Hryvnias and in thousands)

8. Income taxes

Temporary differences as at 31 December 2020 and 2019 were as follows:

	31 December 2020	31 December 2019
Deductible temporary differences:		
Allowance for expected credit losses on guarantees and other commitments	279,484	83,939
Property and equipment and intangible assets	87,707	78,832
Losses on sale of securities	54,715	50,108
Other temporary differences	3,340	2,380
Total deductible temporary differences	**425,246**	**215,259**
Net deferred income tax assets	**76,544**	**38,747**

The income tax rate applicable for the years ended 31 December 2020 and 2019 was 18%.

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2020 and 2019 was as follows:

	2020	2019
Profit before income tax	**2,119,349**	**3,094,366**
Tax at the statutory tax rate	381,483	556,986
Tax effect of other permanent differences	4,144	624
Income tax expense	**385,627**	**557,610**
Current income tax expense	423,424	419,042
Deferred income tax (benefit)/expense	(37,797)	138,568
Income tax expense	**385,627**	**557,610**
Deferred income tax assets		
At the beginning of the period	**38,747**	**177,315**
Deferred income tax benefit/(expense)	37,797	(138,568)
At the end of the period	**76,544**	**38,747**

(In Ukrainian Hryvnias and in thousands)

9. Cash and balances with the National Bank of Ukraine

	31 December 2020	31 December 2019
Balances with the National Bank of Ukraine	2,284,940	2,149,386
Cash	1,225,480	990,207
Total cash and balances with the National Bank of Ukraine	**3,510,420**	**3,139,593**

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

	31 December 2020	31 December 2019
Cash and balances with the National Bank of Ukraine	3,510,420	3,139,593
Correspondent accounts with banks (Note 10):	**13,609,609**	**3,069,562**
In Ukraine	39,707	10,136
In OECD countries	13,391,069	2,904,430
In other countries	178,833	154,996
Loans under repo transactions (Note 10):	**18,469**	**765,505**
In Ukraine	18,469	765,505
Total cash and cash equivalents	**17,138,498**	**6,974,660**

10. Due from banks

Due from banks comprised:

	31 December 2020	31 December 2019
Correspondent accounts with banks	13,610,807	3,069,886
Loans under repo transactions	18,469	765,505
Loans to banks	-	473,828
Allowance for expected credit losses	(1,198)	(749)
Total due from banks	**13,628,078**	**4,308,470**

As at 31 December 2020 and 2019, the Bank received pledged securities that were used as a collateral under repo agreements in the amount of UAH 18,469 thousand and UAH 765,505 thousand, respectively.

As at 31 December 2020 and 2019, in due from banks there was included accrued interest in the amount of UAH 19 thousand and UAH 2,066 thousand, respectively.

As at 31 December 2020, due from five banks for the total amount of UAH 13,137,935 thousand individually exceeded 10% of the Bank’s equity. As at 31 December 2019, due from three banks for the total amount of UAH 2,469,941 thousand individually exceeded 10% of the Bank’s equity.

As at 31 December 2020 and 2019, the maximum credit risk exposure on due from banks amounted to UAH 13,628,078 thousand and UAH 4,308,470 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

11. Loans to customers

Loans to customers comprised:

	31 December 2020	31 December 2019
Loans to legal entities and individual entrepreneurs	21,393,884	18,008,447
Consumer loans to individuals	8,197,852	7,989,370
Mortgage loans to individuals	1,371,488	2,420,805
Finance leases receivables	385,275	542,564
Loans under repo transactions	-	696,130
Other loans to individuals	3,478	4,022
Total loans to customers before allowance for expected credit losses	**31,351,977**	**29,661,338**
Less: Allowance for expected credit losses	(3,713,784)	(4,349,945)
Total loans to customers	**27,638,193**	**25,311,393**

As at 31 December 2020 and 2019, the Bank received pledged securities that were used as a collateral under repo transactions in the amount of nil and UAH 696,130 thousand, respectively.

As at 31 December 2020 and 2019, in loans to customers there was included interest accrued in the amount of UAH 820,356 thousand and UAH 1,098,339 thousand, respectively.

Movements in allowance for expected credit losses are disclosed in Note 5.

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)

11. Loans 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 to customers secured by collateral, rather than the fair value of the collateral itself:

	31 December 2020	31 December 2019
Guarantees	71,813	77,800
Secured loans:	**17,665,961**	**17,363,063**
Loans secured by other real estate	8,955,591	7,777,089
Loans secured by equipment, inventory, and rights thereon	6,158,908	6,112,782
Loans secured by residential properties	1,412,058	1,853,561
Loans secured by cash or guarantee deposits with the Bank	1,139,404	923,501
Loans secured by securities	-	696,130
Unsecured and uncollateralized loans	**13,614,203**	**12,220,475**
Total loans to customers before allowance for expected credit losses	**31,351,977**	**29,661,338**
Less: Allowance for expected credit losses	(3,713,784)	(4,349,945)
Total loans to customers	**27,638,193**	**25,311,393**

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

	31 December 2020	31 December 2019
Secured loans:	**2,129,446**	**3,174,670**
Loans secured by other real estate	925,454	1,516,866
Loans secured by residential properties	828,606	1,216,718
Loans secured by equipment, inventory, and rights thereon	375,136	422,248
Loans secured by cash or guarantee deposits with the Bank	250	18,838
Unsecured and uncollateralized loans	**1,569,372**	**2,077,268**
Total loans to customers before allowance for expected credit losses	**3,698,818**	**5,251,938**
Less: Allowance for expected credit losses	(2,673,290)	(3,855,878)
Total loans to customers	**1,025,528**	**1,396,060**

As at 31 December 2020 and 2019, almost all corporate loans (over 99% of loans to customers) were granted to the companies operating in Ukraine, which represents a significant geographical concentration in one region (Note 27).

(In Ukrainian Hryvnias and in thousands)

11. Loans to customers (continued)

As at 31 December 2020, the Bank did not grant loans to groups of customers which individually exceeded 10% of the Bank's equity.

As at 31 December 2019, the Bank granted loans to three groups of customers for the total amount of UAH 2,631,293 thousand, which individually exceeded 10% of the Bank's equity.

As at 31 December 2020 and 2019, the maximum credit risk exposure on loans to customers amounted to UAH 27,638,193 thousand and UAH 25,311,393 thousand, respectively. As at 31 December 2020 and 2019, the maximum credit risk exposure on contingent lending commitments and undrawn credit lines amounted to UAH 9,909,999 thousand and UAH 9,374,069 thousand, respectively (Note 23). Credit quality of loans to customers is disclosed in Note 27.

As at 31 December 2020 and 2019, the maximum credit risk exposure on loans to customers registered in Donetska and Luhanska regions comprised the following:

	31 December 2020	31 December 2019
Loans to customers registered in Donetska and Luhanska regions	4,917	493,469
Less: Allowance for expected credit losses on loans to customers registered in Donetska and Luhanska regions	(4,578)	(493,321)
Total loans to customers registered in Donetska and Luhanska regions	**339**	**148**

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 created earlier were written-off for the amount of UAH 1,033,525 thousand (Note 5). During the year ended 31 December 2019, the Bank sold a portion of its loan portfolio the value of which, before allowance, amounted to UAH 989,150 thousand for UAH 170,482 thousand. As a result of the transaction, the allowances were written-off for the amount of UAH 818,668 thousand (Note 5).

(In Ukrainian Hryvnias and in thousands)

11. Loans to customers (continued)

As at 31 December 2020 and 2019, loans to customers included the finance leases receivables disclosed as follows:

	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**

	31 December 2019	
	Minimum lease payments	**Present value of minimum lease payments**
Receivables under finance leases		
Up to 1 year	109,949	53,284
From 1 to 2 years	400,845	348,018
From 2 to 3 years	54,936	43,850
From 3 to 4 years	30,223	22,491
From 4 to 5 years	58,066	53,213
Over 5 years	23,788	21,708
Total investments in finance leases	**677,807**	**542,564**
Unearned finance income on finance leases	(135,243)	-
Allowance for expected credit losses on finance leases	(83,220)	(83,220)
Net investments in finance leases	**459,344**	**459,344**
Current finance leases receivable		45,112
Non-current finance leases receivable		414,232
Net investments in finance leases		**459,344**

(In Ukrainian Hryvnias and in thousands)

12. Investments measured at fair value through other comprehensive income

Investments measured at fair value through other comprehensive income comprised:

	31 December 2020	31 December 2019
Debt securities:		
- Government	6,710,631	3,647,425
- Corporate entities and banks	953	730
Debt securities measured at fair value through other comprehensive income	**6,711,584**	**3,648,155**
Allowance for expected credit losses	(109,327)	(35,690)
Total investments measured at fair value through other comprehensive income	**6,602,257**	**3,612,465**

As at 31 December 2020 and 2019, in investments measured at fair value through other comprehensive income there was included accrued interest in the amount of UAH 127,049 thousand and UAH 99,972 thousand, respectively.

13. Investments measured at amortized cost

As at 31 December 2020 and 2019, investments measured at amortized cost included government debt securities in the amount of UAH 5,901,418 thousand and UAH 7,212,296 thousand, respectively.

As at 31 December 2020 and 2019, in investments measured at amortized cost there was included accrued interest in the amount of UAH 1,418 thousand and UAH 12,314 thousand, respectively.

14. Investments in subsidiary

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 2020 and 2019, the share capital of LLC “OTP Factoring Ukraine” amounted to UAH 6,227,381 thousand.

(In Ukrainian Hryvnias and in thousands)

15. Property and equipment and intangible assets

Property and equipment and intangible assets comprise the following:

	Buildings and other real estate	Furniture and equip-ment	Other non-current tangible assets	Vehicles	Construc-tion in progress	Intan-gible assets	Total
Cost							
31 December 2018	**130,305**	**386,156**	**120,459**	**26,305**	**36,178**	**522,802**	**1,222,205**
Additions and internal transfers	400	86,358	24,127	4,797	16,601	74,886	207,169
Disposals	(632)	(11,752)	(2,056)	(1,743)	(8,794)	(4,312)	(29,289)
31 December 2019	**130,073**	**460,762**	**142,530**	**29,359**	**43,985**	**593,376**	**1,400,085**
Additions and internal transfers	420	80,630	16,001	-	11,411	199,389	307,851
Disposals	-	(12,577)	(4,432)	(665)	(34,902)	(68,770)	(121,346)
31 December 2020	**130,493**	**528,815**	**154,099**	**28,694**	**20,494**	**723,995**	**1,586,590**
Accumulated depreciation and amortization							
31 December 2018	**23,812**	**259,036**	**97,939**	**9,336**	**-**	**353,184**	**743,307**
Charges for the year	2,782	39,755	13,166	4,155	-	48,042	107,900
Eliminated on disposals	(168)	(11,725)	(2,056)	(1,743)	-	(4,312)	(20,004)
31 December 2019	**26,426**	**287,066**	**109,049**	**11,748**	**-**	**396,914**	**831,203**
Charges for the year	2,734	46,709	16,684	4,102	-	37,220	107,449
Eliminated on disposals	-	(12,553)	(4,432)	(665)	-	(68,770)	(86,420)
31 December 2020	**29,160**	**321,222**	**121,301**	**15,185**	**-**	**365,364**	**852,232**
Net book value							
31 December 2020	**101,333**	**207,593**	**32,798**	**13,509**	**20,494**	**358,631**	**734,358**
31 December 2019	**103,647**	**173,696**	**33,481**	**17,611**	**43,985**	**196,462**	**568,882**

As at 31 December 2020 and 2019, in property and equipment and intangible assets there were included fully depreciated property and equipment and amortized intangible assets in the amount of UAH 408,080 thousand and UAH 458,126 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

16. Right-of-use assets

Right-of-use assets comprised:

	Total
Cost	
1 January 2019	**303,458**
Additions and modifications	21,761
Disposals	(29,999)
31 December 2019	**295,220**
Additions and modifications	432,176
Disposals	(161,960)
31 December 2020	**565,436**
Accumulated depreciation	
1 January 2019	-
Charges for the year	125,071
Eliminated on disposals	(21,709)
31 December 2019	**103,362**
Charges for the year	130,731
Eliminated on disposals	(115,342)
31 December 2020	**118,751**
Net book value	
31 December 2020	**446,685**
31 December 2019	**191,858**

During the years ended 31 December 2020 and 2019, right-of-use assets had the following effect on the Bank's financial result:

	2020	**2019**
Amounts recognized in profit or loss		
Depreciation of right-of-use assets	(130,731)	(125,071)
Operating expense on leases	(13,103)	(13,181)
Interest expense on lease liabilities	(24,508)	(31,695)
Gain on subleases of right-of-use assets	303	360
Total effect on financial performance	**(168,039)**	**(169,587)**

As at 31 December 2020 and 2019, the average lease period of right-of-use assets was 30 months and 25 months, respectively.

As at 31 December 2020 and 2019, the Bank had no lease contracts presupposing the purchase of assets at their nominal values.

(In Ukrainian Hryvnias and in thousands)

17. Other assets

Other assets comprised:

	31 December 2020	31 December 2019
Other financial assets		
Accounts receivable and settlement/transit accounts	90,075	118,235
Income accrued	39,205	55,026
Derivative financial assets	10,561	454
Other financial assets before allowance for expected credit losses	**139,841**	**173,715**
Less: Allowance for expected credit losses	(30,846)	(20,516)
Total other financial assets	**108,995**	**153,199**
Other non-financial assets before provision for impairment	**113,871**	**77,987**
Less: Provision for impairment	(3,002)	(926)
Total other non-financial assets	**110,869**	**77,061**
Total other assets	**219,864**	**230,260**

18. Due to banks and other financial institutions

Due to banks and other financial institutions comprised:

	31 December 2020	31 December 2019
Borrowings from international financial institutions	267	378,133
Correspondent accounts of other banks	132	126
Bank borrowings	-	189,542
Total due to banks and other financial institutions	**399**	**567,801**

As at 31 December 2020 and 2019, in due to banks and other financial institutions there was included accrued interest in the amount of nil and UAH 13,689 thousand, respectively.

(In Ukrainian Hryvnias and in thousands)

18. Due to banks and other financial institutions (continued)

The following table provides data on changes in the Bank's liabilities arising from financing activities, including movements caused by cash flows and non-cash changes. Liabilities arising from financing activities represent liabilities the cash flows on which were or will be recorded in the separate statement of cash flows in cash flows from financing activities.

	1 January 2020	Net cash flows (i)	Other changes (ii)	31 December 2020
Borrowings from international financial institutions	378,133	(367,982)	(9,884)	267

	1 January 2019	Net cash flows (i)	Other changes (ii)	31 December 2019
Borrowings from international financial institutions	315	367,935	9,883	378,133

(i) Cash flows on borrowings from international financial institutions include net proceeds and repayments of borrowings recorded in the separate statement of cash flows.

(ii) Other changes include interest accruals and repayments.

19. Customer accounts

Customer accounts comprised:

	31 December 2020	31 December 2019
Current accounts and deposits repayable on demand	42,255,518	29,946,722
Term deposits	5,583,004	5,455,204
Total customer accounts	**47,838,522**	**35,401,926**

As at 31 December 2020 and 2019, in customer accounts there was included interest accrued in the amount of UAH 51,306 thousand and UAH 81,999 thousand, respectively.

As at 31 December 2020 and 2019, customer accounts amounting to UAH 4,785,535 thousand (10.0%) and UAH 3,597,289 thousand (10.2%) were due to fourteen customers and ten customers, respectively, which represents a significant concentration.

(In Ukrainian Hryvnias and in thousands)

19. Customer accounts (continued)

As at 31 December 2020 and 2019, customer accounts amounting to UAH 1,724,197 thousand and UAH 1,180,806 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 obligations as follows:

	31 December 2020	31 December 2019
Loans to customers	1,222,436	1,017,094
Guarantees	501,761	163,712
Total customer accounts used as a collateral	**1,724,197**	**1,180,806**

20. Lease liabilities

Movements of lease liabilities for the years ended 31 December 2020 and 2019 were as follows:

	2020	2019
As at the beginning of the period	**174,425**	**-**
Initial recognition	-	303,458
Increase in lease liabilities	431,727	21,863
Interest accrued	24,508	31,695
Write-off of lease liabilities	(48,673)	(30,131)
Repayment of lease liabilities	(147,237)	(152,460)
Effect of foreign exchange fluctuations	15,934	-
Total lease liabilities as at the end of the period	**450,684**	**174,425**

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 2020, foreign currency denominated lease liabilities amounted to USD 11,797 thousand and EUR 15 thousand. As at 31 December 2019, foreign currency denominated lease liabilities amounted to USD 2,863 thousand and EUR 32 thousand.

The maturity profile of lease liabilities was as follows:

	31 December 2020	31 December 2019
Up to one year	93,775	91,363
More than one year, but less than two years	80,956	59,370
More than two years, but less than three years	49,743	17,000
More than three years, but less than four years	27,883	4,889
More than four years, but less than five years	22,286	1,803
More than five years	176,041	-
Total lease liabilities	**450,684**	**174,425**

(In Ukrainian Hryvnias and in thousands)

21. Other liabilities

Other liabilities comprised:

	31 December 2020	**31 December 2019**
Other financial liabilities		
Provision for unused vacations and bonuses	302,602	284,677
Transit and settlement accounts	247,802	252,470
Payables to other counterparties	19,521	35,769
Payables on property and equipment	7,095	7,485
Derivative financial liabilities	844	3,447
Other	15,815	12,314
Total other financial liabilities	**593,679**	**596,162**
Other non-financial liabilities		
Allowance for losses on guarantees and other commitments	279,484	83,939
Deferred income	69,138	64,349
Payables on contributions to Individual Guarantee Deposit Fund	35,254	27,587
Taxes payable, other than income taxes	4,882	5,832
Total other non-financial liabilities	**388,758**	**181,707**
Total other liabilities	**982,437**	**777,869**

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

As at 31 December 2020 and 2019, 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.

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

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;
(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. This reserve has been created in accordance with the Bank's Charter.

As at 31 December 2020 and 2019, the share premium totaling to UAH 405,075 thousand represented an excess of contributions received over the nominal value of the shares issued.

In 2020 and 2019, all ordinary shares were ranked equally and carried one vote.

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

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

During 2020 and 2019, the Bank paid no dividends to its shareholder.

(In Ukrainian Hryvnias and in thousands)

23. 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 2020 and 2019, the nominal or contractual amounts of contingent liabilities were as follows:

	31 December 2020	31 December 2019
Contingent liabilities and loan commitments		
Guarantees issued and similar commitments:	3,276,046	2,486,679
Guarantees issued	3,008,015	1,970,174
Import letters of credit	238,482	424,512
Avals	29,549	91,993
Irrevocable undrawn credit lines	6,913,437	6,971,329
Contingent liabilities and loan commitments before allowance for expected credit losses on guarantees and other liabilities	**10,189,483**	**9,458,008**
Less: Allowance for expected credit losses on guarantees and other liabilities	(279,484)	(83,939)
Total contingent liabilities and loan commitments	**9,909,999**	**9,374,069**

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 2020 and 2019, 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)

24. 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 2020 and 2019 with its related parties:

	31 December 2020		31 December 2019	
	Related party balances	**Total category as per separate financial statements caption**	**Related party balances**	**Total category as per separate financial statements caption**
Due from banks	217,178	13,628,078	1,073,699	4,308,470
- Parent	38,345	-	918,703	-
- Entities under common control or significant influence	178,833	-	154,996	-
Loans to customers before allowance for expected credit losses	660,168	31,351,977	1,162,344	29,661,338
- Entities under common control or significant influence	659,100	-	1,160,011	-
- Key management personnel	1,068	-	2,333	-
Allowance for expected credit losses on loans to customers	(15,747)	(3,713,784)	(7,573)	(4,349,945)
- Entities under common control or significant influence	(15,704)	-	(7,516)	-
- Key management personnel	(43)	-	(57)	-
Investment in subsidiary	139,143	139,143	139,143	139,143
- Subsidiary	139,143	-	139,143	-
Other assets	258	219,864	87	230,260
- Parent	64	-	6	-
- Entities under common control or significant influence	194	-	81	-
Due to banks and other financial institutions	131	399	108	567,801
- Parent	129	-	106	-
- Entities under common control or significant influence	2	-	2	-
Customer accounts	759,404	47,838,522	638,638	35,401,926
- Entities under common control or significant influence	205,147	-	290,850	-
- Key management personnel	53,549	-	40,163	-
- Subsidiary	500,708	-	307,625	-
Other liabilities	37,324	982,437	49,891	777,869
- Parent	9,645	-	2,611	-
- Entities under common control or significant influence	-	-	16,610	-
- Key management personnel	27,679	-	30,670	-
Irrevocable commitments on loans and undrawn credit lines	1,565	6,913,437	1,373	6,971,329
- Key management personnel	1,565	-	1,373	-

(In Ukrainian Hryvnias and in thousands)

24. Related party transactions (continued)

Included in the separate statement of profit or loss and other comprehensive income for the years ended 31 December 2020 and 2019 were the following amounts which arose due to the transactions with related parties:

	2020		**2019**	
	Related party transactions	**Total category as per separate financial statements caption**	**Related party transactions**	**Total category as per separate financial statements caption**
Interest income	84,587	4,962,915	143,218	5,092,574
- Parent	13	-	1,455	-
- Entities under common control or significant influence	84,419	-	141,613	-
- Key management personnel	155	-	150	-
Interest expense	(27,452)	(1,386,122)	(21,254)	(1,653,327)
- Entities under common control or significant influence	(2,098)	-	(2,662)	-
- Key management personnel	(837)	-	(647)	-
- Subsidiary	(24,517)	-	(17,945)	-
Fee and commission income	4,574	1,684,106	4,476	1,696,120
- Parent	43	-	373	-
- Entities under common control or significant influence	4,338	-	4,103	-
- Subsidiary	193	-	-	-
Fee and commission expense	(25,738)	(506,572)	(7,644)	(393,261)
- Parent	(25,604)	-	(7,569)	-
- Entities under common control or significant influence	(134)	-	(75)	-
Net gain/(loss) on foreign exchange and precious metals operations	1,027,593	295,785	(313,941)	258,222
- Parent	1,030,025	-	(301,763)	-
- Entities under common control or significant influence	(2,432)	-	(12,178)	-
Net gain on transactions with derivative financial instruments	19,616	89,887	38,461	81,431
- Parent	19,616	-	38,461	-
Charge of allowance for expected credit		-		
losses on interest-bearing assets	(8,225)	(836,210)	(3,032)	(145,694)
- Entities under common control or significant influence	(8,194)	-	(3,015)	-
- Key management personnel	(31)	-	(17)	-
Other income	1,045	104,883	467	162,643
- Entities under common control or significant influence	664	-	467	-
- Subsidiary	381	-	-	-
Operating expense	(183,453)	(2,147,005)	(171,110)	(1,988,513)
- Parent	(18,707)	-	(8,995)	-
- Entities under common control or significant influence	(81,854)	-	(73,676)	-
- Key management personnel	(81,884)	-	(88,439)	-
- Subsidiary	(1,008)	-	-	-

(In Ukrainian Hryvnias and in thousands)

24. Related party transactions (continued)

During the years ended 31 December 2020 and 2019, remuneration to key management personnel comprised short-term benefits in the amount of UAH 81,884 thousand and UAH 84,439 thousand, respectively.

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

25. 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 2020	31 December 2019		
1) Derivative financial assets	10,561	454	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	3,064,076	1,519,603	Level 1	Quoted deal prices in an active market
3) Investments measured at fair value through other comprehensive income	3,274,450	2,092,862	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)

25. Fair value of financial instruments (continued)

Financial assets/ financial liabilities	Fair value as at 31 December 2020	31 December 2019	Fair value hierarchy	Valuation technique(s) and key inputs
3) Investments measured at fair value through other comprehensive income	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 assumptions on interdependence of the yield of EUR denominated domestic government loan bonds (in the absence of the observable data sufficient for use) and USD denominated domestic government loan bonds by using the curve of coupon-free yield for which observable data is available, with the use of the observable information regarding the yield curve of Eurozone government securities calculated by the European Central Bank and the yield curve of US treasury bonds calculated by the Treasury Department, respectively. The calculated by the Bank coefficient of interdependence of yield of government bonds denominated in euro and those denominated in dollars is 99.16%.
4) Derivative financial liabilities	844	3,447	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.

As at 31 December 2020 and 2019, there were no transfers between the levels of fair value hierarchy.

(In Ukrainian Hryvnias and in thousands)

25. Fair value of financial instruments (continued)

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

	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). Management believes that the carrying value of financial assets and financial liabilities recognized in the separate financial statements approximates their fair value.

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 2020 and 2019 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 2020 and 2019, the carrying amounts of such loans were UAH 37,588 thousand and UAH 56,763 thousand, respectively.

26. Capital management

The Bank’s objectives in its capital management are to:

1) Comply with the requirements to the capital established by the National Bank of Ukraine;
2) Be able to operate and develop in accordance with the Bank’s strategic plans approved;
3) Cover adverse consequences of varied risks assumed by the Bank in the course of its operations.

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 in meeting the following restrictions:

- Comply with the capital requirements established by supervisory authorities;
- The capital level that meets the requirements of investors and rating agencies in ensuring the Bank’s access to funds in global and domestic capital markets.

(In Ukrainian Hryvnias and in thousands)

26. Capital management (continued)

To determine an actual level of the capital considering its business risks, the Bank consistently monitors the quality of its assets and off-balance liabilities, adjusts correspondingly their values by creating provisions for estimated (potential) losses from counterparties' obligations.

A quantitative capital assessment is complemented by qualitative, comprehensive discussions. The respective results are summarized in the form of goals regarding the required level of capital, including strategic objectives as to the ways of maintaining its sufficient level.

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 following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the requirements of the National Bank of Ukraine:

Regulatory capital composition:

	31 December 2020	31 December 2019
Tier 1 capital	7,066,777	4,953,899
Additional capital	1,693,832	2,078,811
Deductions	(139,143)	(139,143)
Total regulatory capital	**8,621,466**	**6,893,567**

As at 31 December 2020 and 2019, the Bank was in compliance with the statutory requirements to regulatory capital adequacy as established by the National Bank of Ukraine (not less than 10%).

27. 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.

27. 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. Daily risk management is performed by an appropriate department within Risk Management structure.

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 Risk Management Department and are approved by Assets and Liabilities Management Committee. Actual exposures against limits are monitored on a daily basis.

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 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.

27. 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;
- For mortgage loans, the ratio of debt to collateral exceeding 125%;
- 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.

27. 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.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank uses external and internal information for building the 'base case' scenario of estimated economic variables, together with a representative range of other forward-looking scenarios. External information applied includes economic data and forecasts published by government statistical bodies.

The Bank uses probabilities for identified scenarios. 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.

27. 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 (including extension options) 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).

As a result of the adverse impact of COVID-19 outbreak in Ukraine, within its credit risk assessment, the Bank undertook the following measures during the year ended 31 December 2020:

1. Restructured 3,812 loans to legal entities and individuals;
2. Analyzed individual loans to legal entities and divided them into four groups: loans to customers with a full, significant, medium, and insignificant impact of COVID-19;
3. Loans to legal entities with a full and significant impact on business were transferred to Stage 2;
4. Probabilities of default were recalculated and weights of macro-scenarios used for calculating expected credit losses were changed.

Total impact of the above measures on the allowances for expected credit losses on loans to customers and guarantees and other loan commitments amounted UAH 874,942 thousand.

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

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 to customers	**Financial accounts receivable**	**Due from 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 investments that are subject to impairment requirements under IFRS 9, the Bank allocates those assets to four risk levels in accordance with the ratings assigned by international rating agencies (Fitch, Moody's, S&P). Level 1 corresponds to ratings from AAA to A-, Level 2 corresponds to ratings from BBB+ to B-, Level 3 corresponds to ratings from CCC+ to CCC-, and Level 4 (default) corresponds to rating CC.

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 2020
Loans to customers	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	25,580,530	1,632,775	1,116,964	286,618
LEVEL 2	96,605	194,623	133,342	27,839
LEVEL 3	-	105,799	29,568	5,957
LEVEL 4	-	42,827	30,926	523
LEVEL 5 (default)	-	-	1,926,904	140,177
Total	**25,677,135**	**1,976,024**	**3,237,704**	**461,114**

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

				As at 31 December 2019
Loans to customers	**Stage 1 12-months ECLs**	**Stage 2 Lifetime ECLs**	**Stage 3 Lifetime ECLs**	**Purchased or originated credit mpaired financial instruments**
LEVEL 1	22,153,216	1,677,887	1,676,130	469,868
LEVEL 2	268,524	169,735	27,638	41,894
LEVEL 3	-	96,779	31,808	17,708
LEVEL 4	-	43,259	8,983	10,525
LEVEL 5 (default)	-	-	2,807,261	160,123
Total	**22,421,740**	**1,987,660**	**4,551,820**	**700,118**

Gross carrying value of due from banks, investments measured at fair value through other comprehensive income, and investments measured at amortized cost as at 31 December 2020 and 2019 was at Stage 1 and Level 1.

The following tables analyze information on significant changes in gross carrying value of loans to customers, guarantees issued and similar commitments during the period, as well as movements in respective expected losses during the years ended 31 December 2020 and 2019 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. The effect of foreign exchange rate fluctuations on changes in gross carrying value and expected credit losses of financial instruments that are covered by impairment requirements under IFRS 9 in the tables below is not stated in separate lines, but included in respective items of changes.

Loans to customers – 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**
31 December 2019	**22,421,740**	**1,987,660**	**4,551,820**	**700,118**
New loans to customers or purchased loans	22,423,494	-	-	-
Transfer from Stage 1, 12-month ECLs	(1,909,514)	1,433,342	528,301	-
Transfer from Stage 2, Lifetime ECLs	570,979	(726,921)	157,876	-
Transfer from Stage 3, Lifetime ECLs	4,958	92,779	(109,917)	-
Loans to customers derecognized during the reporting period	(17,538,833)	(711,296)	(425,461)	(138,408)
Loans to customers sold and written off during the reporting period	-	-	(1,721,452)	(70,554)
Restructured loans to customers	-	-	(18,917)	-
Effect of other changes	(295,689)	(99,540)	275,454	(30,042)
31 December 2020	**25,677,135**	**1,976,024**	**3,237,704**	**461,114**

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

Loans to customers – 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**
31 December 2018	**18,267,505**	**2,201,326**	**6,084,242**	**1,178,141**
New loans to customers or purchased loans	19,792,455	-	-	5,599
Transfer from Stage 1, 12-month ECLs	(2,305,971)	1,538,219	576,404	-
Transfer from Stage 2, Lifetime ECLs	247,733	(560,086)	200,644	-
Transfer from Stage 3, Lifetime ECLs	12,898	65,675	(91,575)	-
Loans to customers derecognized during the reporting period	(12,971,779)	(1,075,124)	(963,461)	(181,646)
Loans to customers sold and written off during the reporting period	-	-	(805,245)	(147,734)
Restructured loans to customers	-	-	(12,884)	-
Effect of other changes	(621,101)	(182,350)	(436,305)	(154,242)
31 December 2019	**22,421,740**	**1,987,660**	**4,551,820**	**700,118**

Loans to customers – 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**
31 December 2019	**231,384**	**262,683**	**3,532,480**	**323,398**
New loans to customers or purchased loans	832,426	-	-	-
Transfer from Stage 1, 12-month ECLs	(314,258)	250,116	404,631	-
Transfer from Stage 2, Lifetime ECLs	14,564	(87,865)	128,939	-
Transfer from Stage 3, Lifetime ECLs	145	32,203	(69,806)	-
Loans to customers derecognized during the reporting period	(155,695)	(117,311)	(176,068)	(8,745)
Loans to customers sold and written off during the reporting period	-	-	(1,721,452)	(70,554)
Effect of changes in models or risk parameters, other changes	33,098	59,004	381,595	(51,128)
31 December 2020	**641,664**	**398,830**	**2,480,319**	**192,971**

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

Loans to customers – 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
31 December 2018	**176,586**	**283,419**	**4,769,332**	**442,825**
New loans to customers or purchased loans	449,200	-	-	2,522
Transfer from Stage 1, 12-month ECLs	(278,922)	198,875	249,984	-
Transfer from Stage 2, Lifetime ECLs	3,158	(82,474)	141,274	-
Transfer from Stage 3, Lifetime ECLs	261	25,456	(39,527)	-
Loans to customers derecognized during the reporting period	(106,380)	(121,845)	(419,914)	(76,701)
Loans to customers sold and written off during the reporting period	-	-	(805,245)	(147,734)
Effect of changes in models or risk parameters, other changes	(12,519)	(40,748)	(363,424)	102,486
31 December 2019	**231,384**	**262,683**	**3,532,480**	**323,398**

Guarantees and other 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
1 January 2020	**9,346,157**	**111,851**
New guarantees and other loan commitments	5,579,453	-
Transfer from Stage 1, 12-month ECLs	(547,336)	501,690
Transfer from Stage 2, Lifetime ECLs	62,671	(55,851)
Guarantees and loan commitments derecognized during the reporting period	(3,867,546)	(43,567)
Effect of other changes	(895,296)	(2,743)
31 December 2020	**9,678,103**	**511,380**

Guarantees and other 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
1 January 2020	**65,844**	**18,095**
New guarantees and other loan commitments	141,024	-
Transfer from Stage 1, 12-month ECLs	(11,783)	40,621
Transfer from Stage 2, Lifetime ECLs	2,771	(9,566)
Guarantees and loan commitments derecognized during the reporting period	(18,744)	(7,036)
Effect of changes in models or risk parameters, other changes	58,634	(376)
31 December 2020	**237,746**	**41,738**

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

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 2020 and 2019:

	2020	**2019**
Amortized cost of financial assets before modification (Lifetime ECLs)	1,487,442	1,089,283
Net loss on modification of financial assets	(18,917)	(12,884)
Gross carrying value of modified financial assets, at the end of the reporting period, transferred to 12-month ECLs	428,512	120,822

Liquidity risk

Risk substance. Liquidity of the Bank is defined as ability to meet its current financial liabilities on a timely basis and in full as they come due. This risk arises from inability to manage incidental cash outflows or changes in funding sources, as well as failure to fulfill its off-balance sheet obligations.

***Objective of liquidity risk management*.** The objective of liquidity risk management is to ensure sufficient reliable funds to meet the Bank's obligations in full and on a timely basis to customers, lenders, and other counterparties and to achieve the target rates of assets and profitability growth, which contemplates:

a) Managing on a daily basis cash balances and nostro accounts in order to ensure timely settlements and payments, performance of the obligatory provision requirements, and compliance with the NBU's liquidity ratios at each reporting date;
b) Ensuring funds for sustainable growth of business as envisaged by credit and investment policies of the Bank;
c) 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*.** Assets and Liabilities Management Committee which is delegated by the Bank's Management Board with functions to manage assets and liabilities determines the strategy for maintaining sufficient liquidity basing on the Parent's approaches and approves it in the form of liquidity risk management policies as a part of assets and liabilities management policies.

In order to manage liquidity, the Bank sets up limits to the maximum volume of certain on-balance sheet items, monitors the amount of gaps between maturities of assets and liabilities as a measure of risk level to which the Bank is exposed, diversifies external funding sources, plans funds to finance the Bank's credit and investment policies.

A significant attention is given to concentrations in loan portfolio and deposits, as well as the liquidity level of existing assets. Assets and Liabilities Management Committee annually reviews its plan of anti-recessionary measures in the event of liquidity crisis which are the part of the Bank's Recovery plan after comprehensive stress testing.

27. Risk management policies (continued)

Liquidity risk management processes. Internal liquidity risk management processes, alongside with other risks, include:

1) Identifying sources of risks and measuring their volumes, which is monthly performed by Directorate of Assets and Liabilities management and Treasury Controlling of the Financial Risk Management Department on the basis of operating system data;
2) Managing risk – a respective function is locally delegated to Directorate of Assets and Liabilities management and Treasury Controlling which regularly receives information on the risk volume to which the Bank is exposed from Assets and Liabilities Management Department and complies with the respective limits. At the consolidated level, risk management is performed by a respective committee of the Parent which receives information on the risk exposure on a monthly basis;
3) Monitoring the availability of minimum required stock of highly liquid assets, which is daily performed by Assets and Liabilities Management Department, with subsequent reporting to Assets and Liabilities Management Committee and Treasury Controlling Department, and the Parent. In addition, the Bank's Management Board and the Supervisory Board and Risk Management Committee of the Board receive reports on risk liquidity on a monthly and quarterly basis, respectively;
4) Management during the day as well as daily monitoring of the compliance with regulatory requirements and internal limits;
5) Assessing the efficiency of strategic and operating liquidity management, which is the function of Assets and Liabilities Management Committee.

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.

Liquidity is managed by national and foreign currencies. National currency liquidity management is de-centralized and is a full responsibility of a local Assets and Liabilities Management Committee. Foreign currency liquidity management is performed centrally on the level of the Parent using a method of the pool of funds.

27. Risk management policies (continued)

Assets and Liabilities Management Committee consistently monitors its liquid position and employs a combined approach to liquidity management – in order to ensure timely fulfillment of the Bank's obligations.

Liquidity management through assets is based on maintaining the adequate supply of high-liquid assets, which allows meeting provision requirements, norms established by the NBU and which serves as a source for covering a temporary liquidity deficit. This approach is especially effective in the event of continued liquidity crisis and in other cases when the access to money markets is limited or missing. Liquidity management through liabilities is based on attracting interbank funding to cover temporary needs in liquidity.

Essential elements of liquidity management include analysis of credit and investment policies of the Bank and election of the most effective funding sources in accordance with the intended use of funds, as well as development of the emergency plan in case of liquidity crisis containing a clear description of crisis indicators, actions of employees responsible for anti-recessionary management, data flows, and sources for replenishment of liquid funds.

In the event of liquidity crisis, a Recovery Plan of anti-recessionary measures 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)

27. 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	December 2020 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	3,510,420	-	-	-	-	3,510,420
Due from banks	13,628,078	-	-	-	-	13,628,078
Loans to customers	4,607,967	6,052,672	10,160,726	6,019,361	797,467	27,638,193
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 banks and other financial institutions	399	-	-	-	-	399
Customer accounts	47,769,203	26,874	42,384	61	-	47,838,522
Lease liabilities	22,321	8,757	62,697	180,868	176,041	450,684
Other financial liabilities	592,835	-	-	-	-	592,835
Guarantees issued and similar commitments	3,176,422	-	-	-	-	3,176,422
Irrevocable undrawn credit lines	6,733,577	-	-	-	-	6,733,577
Total non-derivative financial liabilities	**58,294,757**	**35,631**	**105,081**	**180,929**	**176,041**	**58,792,439**
Derivative financial liabilities	844	-	-	-	-	844
TOTAL FINANCIAL LIABILITIES	**58,295,601**	**35,631**	**105,081**	**180,929**	**176,041**	**58,793,283**
Liquidity gap	(30,491,169)	8,239,514	13,059,698	7,165,656	622,379	
Cumulative liquidity gap	(30,491,169)	(22,251,655)	(9,191,957)	(2,026,301)	(1,403,922)	

(In Ukrainian Hryvnias and in thousands)

27. 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	December 2019 Total
NON-DERIVATIVE FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	3,139,593	-	-	-	-	3,139,593
Due from banks	4,308,470	-	-	-	-	4,308,470
Loans to customers	5,769,208	4,223,841	9,413,918	5,047,535	856,891	25,311,393
Investments measured at fair value through other comprehensive income	413,154	174,713	1,109,247	1,914,621	730	3,612,465
Investments measured at amortized cost	7,212,296	-	-	-	-	7,212,296
Other financial assets	152,745	-	-	-	-	152,745
Total non-derivative financial assets	**20,995,466**	**4,398,554**	**10,523,165**	**6,962,156**	**857,621**	**43,736,962**
Derivative financial assets	454	-	-	-	-	454
TOTAL FINANCIAL ASSETS	**20,995,920**	**4,398,554**	**10,523,165**	**6,962,156**	**857,621**	**43,737,416**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Due to banks and other financial institutions	189,959	-	135,038	242,804	-	567,801
Customer accounts	34,253,310	361,920	763,971	22,725	-	35,401,926
Lease liabilities	14,612	14,317	62,434	83,062	-	174,425
Other financial liabilities	592,715	-	-	-	-	592,715
Guarantees issued and similar commitments	2,473,114	-	-	-	-	2,473,114
Irrevocable undrawn credit lines	6,900,955	-	-	-	-	6,900,955
Total non-derivative financial liabilities	**44,424,665**	**376,237**	**961,443**	**348,591**	**-**	**46,110,936**
Derivative financial liabilities	3,447	-	-	-	-	3,447
TOTAL FINANCIAL LIABILITIES	**44,428,112**	**376,237**	**961,443**	**348,591**	**-**	**46,114,383**
Liquidity gap	(23,432,192)	4,022,317	9,561,722	6,613,565	857,621	
Cumulative liquidity gap	(23,432,192)	(19,409,875)	(9,848,153)	(3,234,588)	(2,376,967)	

Liquidity gap, which arose as at 31 December 2020 and 2019 on assets and liabilities with maturities less than one year, is appropriately managed by the Bank.

The major portion of interest-bearing liabilities is represented by both demand deposits of customers and short-term deposits that allow early termination, thus, they are included to the category requiring repayment up to one month.

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

Deposits of customers are repayable on demand and when they are due in accordance with agreement maturity. Commonly, demand deposits are more stable facilities, and they are not withdrawn within one month. The Bank's liquidity risk management includes assessing major current accounts, i.e. the conditionally stable portion of deposits. As at 31 December 2020 and 2019, the stable portion of customers' deposits, calculated as amount of customer accounts as at year end less standard deviation of deposits for the last three years, amounted to UAH 33,439,621 thousand and UAH 26,019,725 thousand, respectively.

Thus, as at 31 December 2020 and 2019, the excess of the Bank's current assets over its current liabilities calculated with reference to the stable portion of customers' deposits as liabilities the actual maturities of which were treated as indefinite amounted to UAH 24,247,664 thousand and UAH 16,171,572 thousand, respectively.

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 2020 Total
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	399	-	-	-	-	399
Customer accounts	47,646,714	27,562	43,680	66	-	47,718,022
Lease liabilities	22,321	17,466	86,360	252,967	215,575	594,689
Other financial liabilities	592,835	-	-	-	-	592,835
Guarantees issued and similar commitments	3,176,422	-	-	-	-	3,176,422
Irrevocable undrawn credit lines	6,733,577	-	-	-	-	6,733,577
Non-derivative financial liabilities	**58,172,268**	**45,028**	**130,040**	**253,033**	**215,575**	**58,815,944**
Forward contracts	598,008	-	-	-		598,008
Derivative financial liabilities	**598,008**	**-**	**-**	**-**		**598,008**
TOTAL FINANCIAL LIABILITIES	**58,770,276**	**45,028**	**130,040**	**253,033**	**215,575**	**59,413,952**

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	31 December 2019 Total
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	189,981	-	177,531	295,195	662,707
Customer accounts	34,133,489	380,638	807,409	21,653	35,343,189
Lease liabilities	16,461	17,592	73,382	92,203	199,638
Other financial liabilities	592,715	-	-	-	592,715
Guarantees issued and similar commitments	2,473,114	-	-	-	2,473,114
Irrevocable undrawn credit lines	6,900,955	-	-	-	6,900,955
Non-derivative financial liabilities	**44,306,715**	**398,230**	**1,058,322**	**409,051**	**46,172,318**
Forward contracts	74,587	-	86,306	-	160,893
Derivative financial liabilities	**74,587**	**-**	**86,306**	**-**	**160,893**
TOTAL FINANCIAL LIABILITIES	**44,381,302**	**398,230**	**1,144,628**	**409,051**	**46,333,211**

Market risk

Risk substance. The Bank is exposed to market (price) risk as unexpected fluctuations in market prices may adversely affect its financial and real assets carried on the separate statement of financial position or recorded on off-balance accounts. However, 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.

Objective of market risk management. The objective of market risk management is to achieve the intended profitability level of the Bank at acceptable risk for shareholder, i.e. mitigate losses from unexpected fluctuations in interest and foreign exchange rates.

Risk management policies. Market risks are managed at two levels: at the level of the OTP Group and locally.

Assets and Liabilities Management Committee which is delegated by the Bank’s Management Board with functions to manage assets and liabilities 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 assets and liabilities management policies.

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.

27. Risk management policies (continued)

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 consist of the following:

1) Identifying risk sources and measuring their volumes, which is monthly performed by Directorate of Assets and Liabilities management and Treasury Controlling independently from the units involved in market activities on the basis of operating system data;
2) Managing risk - the respective function is locally delegated to Assets and Liabilities Management Committee which regularly receives information on the risk volume to which the Group is exposed from Directorate of Assets and Liabilities management and Treasury Controlling and complies with the respective limits. At the consolidated level, risk management is performed by the respective committee of the Parent which receives information on the risk exposure on a quarterly basis;
3) Monitoring the compliance with limits on the risk volume, which is monthly performed by Assets and Liabilities Management Department, with subsequent reporting to Assets and Liabilities Management Committee and the Parent. In addition, the Bank's Management receives reports on market risk on a monthly and quarterly basis, respectively;
4) Assessing the efficiency of strategic and operating risk management, which is the function of Assets and Liabilities Management Committee.

Interest rate risk. The Bank treats interest rate risk as a risk of impact of the movements in market interest rates on the future cash flows or fair value of financial assets and liabilities.

The main objective of interest rate risk management is to limit the impact of changes in interest rates on the Bank's capital by managing the structure of interest bearing assets and liabilities in a coordinated manner and setting minimum/maximum interest rates for interest bearing assets/liabilities. The interest rate risk management policies describe the main criteria for management and control of the Bank's interest rate risk.

Identifying risk sources is performed 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 assesses its interest rate risk based on the sensitivity analysis towards interest rate fluctuations and movements in economic value of equity as a result of even changes in the yield curve by specified interest points. Estimates include interest rate risk by all on-balance and off-balance positions of the Bank for instruments with fixed and variable interest rates.

To obtain a quantitative estimation of changes in economic value of equity due to fluctuations in interest rates within a long-term period, a duration concept is applied.

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

The Parent centrally sets a limit to the volume of decrease in economic value of equity for subsidiary banks – not more than 20% of regulatory capital, and Assets and Liabilities Management Committee shall ensure minimum gaps between change dates of interest-bearing assets and liabilities by changing parameters of certain large transactions and modifying the existing standards of banking products and pricing policies. The intended level of interest income is achieved through spread management.

Monitoring of weighted average nominal interest rates of interest-bearing financial instruments as at 31 December 2020 and 2019 was as follows:

					31 December 2020, (%)
	UAH	USD	EUR	Other currencies	Interest rate
FINANCIAL ASSETS					
Due from banks	-	-	-	-	-
Loans to customers	14.80	4.22	4.56	5.58	Fixed/variable
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 banks and other financial institutions	-	-	-	-	-
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

					31 December 2019, (%)
	UAH	USD	EUR	Other currencies	Interest rate
FINANCIAL ASSETS					
Due from banks	14.19	1.63	(0.50)	(0.17)	Fixed/variable
Loans to customers	17.20	6.04	4.89	7.00	Fixed/variable
Investments measured at fair value through other comprehensive income	15.98	5.55	4.60	-	Fixed
Investments measured at amortized cost	13.03	-	-	-	Fixed
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	16.27	2.00	-	-	Fixed/variable
Customer accounts:					
Current accounts and deposits repayable on demand	7.61	0.13	0.01	-	Fixed/variable
Term deposits	13.00	2.30	1.92	0.02	Fixed
Lease liabilities	17.30	9.60	2.60	-	Fixed

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

The following table presents the sensitivity to interest rate risk. Used percentage of interest rate multiplied by the value of financial assets and liabilities based, considering the tax rate, is the expected level of impact on profit/(loss) and equity.

The effect on profit or loss and equity was as follows:

	As at 31 December 2020		As at 31 December 2019	
	Interest rate +1	**Interest rate -1**	**Interest rate +1**	**Interest rate -1**
Impact on profit or loss before tax				
Sensitivity of financial assets	401,419	(401,419)	404,446	(404,446)
Sensitivity of financial liabilities	(482,896)	482,896	(361,442)	361,442
Net impact on profit or loss and equity	**(66,787)**	**66,787**	**35,263**	**(35,263)**

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 2020		As at 31 December 2019	
	Discount rate +1	**Discount rate -1**	**Discount rate +1**	**Discount rate -1**
Change in fair value of investments measured at FVTOCI	(25,765)	24,435	(16,359)	21,728
Impact on other comprehensive income/loss and equity	**(25,765)**	**24,435**	**(16,359)**	**21,728**

Foreign currency risk. Currency risk is defined as the risk that the value of the Bank's assets, liabilities, or off-balance sheet items denominated in foreign currencies will be adversely affected by changes in foreign currency exchange rates.

Currency risk is managed by setting limits against which the actual positions that expose the Bank to foreign currency risk are compared on a daily basis. In addition, VaR limits and Stop Loss limits are applied, which limit the actually realized loss as a result of foreign exchange fluctuations.

In accordance with the Bank's asset and liability management policies, foreign currency risk impact is measured in two ways: on the one hand, as an open currency position in an individual currency and, on the other hand, as a total open currency position.

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

Compliance with limits is monitored through comparing the actual amount of the respective open positions and the restrictions established for them. In the event of failure to comply with the limits, reasons of their origination are analyzed and a plan of measures is proposed to remove them or proposals to amend the existing system of limits.

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 2020 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	2,915,602	331,074	242,293	21,451	-	3,510,420
Due from banks	1,755	8,167,602	5,048,477	380,658	29,586	13,628,078
Loans to customers	21,024,084	5,432,325	1,165,084	16,700	-	27,638,193
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 banks and other financial institutions	273	126	-	-	-	399
Customer accounts	26,038,820	14,670,707	6,697,517	396,794	34,684	47,838,522
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)

27. Risk management policies (continued)

	UAH	USD	EUR	Other currencies	Precious metals	31 December 2019 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank of Ukraine	2,806,239	170,782	148,413	14,159	-	3,139,593
Due from banks	187,738	2,041,623	1,782,718	296,390	1	4,308,470
Loans to customers	17,687,030	5,600,587	2,002,265	21,511	-	25,311,393
Investments measured at fair value through other comprehensive income	2,257,584	1,157,393	197,488	-	-	3,612,465
Investments measured at amortized cost	7,212,296	-	-	-	-	7,212,296
Other financial assets	128,762	9,807	14,176	-	-	152,745
TOTAL FINANCIAL ASSETS	**30,279,649**	**8,980,192**	**4,145,060**	**332,060**	**1**	**43,736,962**
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	378,153	189,648	-	-	-	567,801
Customer accounts	22,421,558	8,606,136	4,085,919	282,391	5,922	35,401,926
Lease liabilities	105,764	67,809	852	-	-	174,425
Other financial liabilities	528,671	21,646	39,497	2,901	-	592,715
TOTAL FINANCIAL LIABILITIES	**23,434,146**	**8,885,239**	**4,126,268**	**285,292**	**5,922**	**36,736,867**
CURRENCY POSITION	**6,845,503**	**94,953**	**18,792**	**46,768**	**(5,921)**	
Accounts payable on contracts with derivative financial instruments	(101,677)	(59,216)	-	(28,757)	-	(189,650)
Accounts receivable on contracts with derivative financial instruments	59,658	126,999	-	-	-	186,657
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(42,019)**	**67,783**	**-**	**(28,757)**	**-**	
NET POSITION	**6,803,484**	**162,736**	**18,792**	**18,011**	**(5,921)**	

(In Ukrainian Hryvnias and in thousands)

27. 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 2019: 10%) increase and decrease in USD and EUR official exchange rate against UAH. 10% (31 December 2019: 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 2019: 10%) change in foreign currency rates.

	31 December 2020		31 December 2019	
	UAH/USD +10	UAH/USD -10	UAH/USD +10	UAH/USD -10
Impact on profit or loss and equity	(6,419)	6,419	13,344	(13,344)

	31 December 2020		31 December 2019	
	UAH/EUR +10	UAH/EUR -10	UAH/EUR +10	UAH/EUR -10
Impact on profit or loss and equity	(22)	22	1,541	(1,541)

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.

Geographical risk. The main requirement of the Parent presupposes complying with the limit levels established in the countries where counterparty banks are located. Estimation and management of the risk is performed in accordance with the Regulations on Country Risk Management.
The document has been developed by the Bank's employees according to the procedures of the Parent that aim primarily at using principles regarding the assigned ratings of respective countries.

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

Geographical belonging of corporate borrowers is established in accordance with the criteria of their registration. In accordance with the Bank's corporate credit policies, its target customers are legal entities that are residents of Ukraine. Non-residents may be financed in exceptional cases if they belong to big Ukrainian groups of related companies. As at 31 December 2020 and 2019, the Bank had no non-resident borrowers.

Concentration of assets and liabilities by regions is presented below:

	Ukraine	Non-OECD countries	OECD countries	31 December 2020 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Ukraine	3,510,420	-	-	3,510,420
Due from banks	58,176	178,833	13,391,069	13,628,078
Loans to customers	27,637,206	719	268	27,638,193
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
Other financial assets	106,367	-	2,628	108,995
TOTAL FINANCIAL ASSETS	**43,815,844**	**179,552**	**13,393,965**	**57,389,361**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	268	2	129	399
Customer accounts	46,836,723	461,278	540,521	47,838,522
Lease liabilities	450,684	-	-	450,684
Other financial liabilities	590,000		3,679	593,679
TOTAL FINANCIAL LIABILITIES	**47,877,675**	**461,280**	**544,329**	**48,883,284**
NET POSITION	**(4,061,831)**	**(281,728)**	**12,849,636**	

(In Ukrainian Hryvnias and in thousands)

27. Risk management policies (continued)

	Ukraine	Non-OECD countries	OECD countries	31 December 2019 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Ukraine	3,139,593	-	-	3,139,593
Due from banks	775,641	154,995	3,377,834	4,308,470
Loans to customers	25,307,066	3,580	747	25,311,393
Investments measured at fair value through other comprehensive income	3,612,465	-	-	3,612,465
Investments measured at amortized cost	7,212,296	-	-	7,212,296
Other financial assets	153,187	12	-	153,199
TOTAL FINANCIAL ASSETS	**40,200,248**	**158,587**	**3,378,581**	**43,737,416**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	189,851	2	377,948	567,801
Customer accounts	34,785,188	162,819	453,919	35,401,926
Lease liabilities	174,425	-	-	174,425
Other financial liabilities	588,982	7,103	77	596,162
TOTAL FINANCIAL LIABILITIES	**35,738,446**	**169,924**	**831,944**	**36,740,314**
NET POSITION	**4,461,802**	**(11,337)**	**2,546,637**	