PJSC "BANK VOSTOK"

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

Management Report (Report on Management)

31 December 2019

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management Board of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK":

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2019 the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (the "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 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 and advances to customers assessed on individual basis Allowances for expected credit losses are calculated on a collective basis for the loans and advances to customers with similar risk characteristics and on an individual basis for significant loans and advances to customers.	Our audit procedures in respect of loans and advances to customers assessed on individual basis have included the following: • Updating understanding of the Bank's processes and control procedures for determination and assessment of scenarios for expected cash flows from the loans assessed on an individual basis and their probabilities.

Key audit matter	How the matter has been addressed in the audit
To assess allowances for expected credit losses, the Bank's management applies models and techniques that use both external and internal inputs, as well as comprehensive and subjective judgments of the Bank's management. Key areas of significant judgments and estimates in determining the amount of allowances for expected credit losses for loans and advances to customers are those judgments and estimates applied by management for assessment of expected future cash flows based on several scenarios in respect of the loans assessed on an individual basis. Assessment of allowance for expected credit losses for the loans and advances to customers assessed on an individual basis is determined as a key audit matter due to the subjective character of certain judgments used in determination and assessment of scenarios for expected cash flows from the loans assessed on an individual basis and their probabilities, and a significant balance of corresponding loans and advances to customers. Details on the use of judgments, estimates, and assumptions are provided in Note 4, 5 and 28.	• The appropriateness of provisioning methodologies was independently assessed for a sample of loans and advances to customers across the whole portfolio selected on the risk basis. We assessed the appropriateness of the management judgments used in determination and assessment of expected future cash flows based on probability weighted scenarios and performed alternative calculations of discounted cash flows taking into account appropriate internal and external historical information and forecast expectations. We compared obtained results with calculations of management. • We checked completeness and accuracy of the relevant disclosures to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the management report, issuer's annual information, which also includes a corporate governance report, but does not include the financial statements and our auditor's report thereon, made available to us before the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with 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 financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report, except for the cases when a law or regulation prohibits a public disclosure of a specific matter or, in extremely adverse circumstances, we determine that such an matter should not be addressed in our report, as negative consequences from such a disclosure may predictably outweigh its usefulness for interests of the public.

Report on Other Legal Requirements

We have been appointed as auditor of PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" by the Supervisory Board's meeting on 23 September 2019. In view of the previous renewals and reappointments, we conducted audit from 30 October 2017 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to Audit Committee.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, Paragraph 4 of the 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.

In accordance with the requirements of Paragraph 11, Article 4 of the Instruction on the Procedure for Preparation and Publication of Financial Statements of Ukrainian Banks as approved by Resolution of the Board of the National Bank of Ukraine # 373 dated 24 October 2011 (as subsequently amended) ("Instruction # 373"), we report the following:

- In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, the management report has been prepared in accordance with the requirements of Article 4 of Instruction # 373 and the information in the management report is consistent with the 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 financial statements. We have nothing to report in this respect.

Basic Information about Audit Firm

Full name: LLC "Deloitte & Touche Ukrainian Services Company".

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

"LLC "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"

29 April 2020

Engagement Partner Natalia Samoilova

Certificate of Banks' Auditor #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

Україна * Товариство з обмеженою відповідальністю * м.Київ *
"Делойт енд Туш Юкрейніан Сервісез Компані"
ідентифікаційний код 25642478

Director Yevhen Zanoza

Certificate of Banks' Auditor #0018
Issued by the Audit Chamber of Ukraine on 24 March 1994
on the basis of Resolution of the Audit Chamber of Ukraine #13,
Registration Number in the Register of Auditors and Auditing Entities 102250

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

In Ukrainian Hryvnias and in thousands	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	6	893,484	687,234
Balances with the National Bank of Ukraine	7	407,234	405,956
Due from other banks	8	819,566	571,595
Loans and advances to customers	9, 33	6,523,854	6,567,014
Investment securities measured at fair value through other comprehensive income	10	421,012	98
Investment securities measured at amortized cost	11	1,191,563	808,759
Deferred tax assets	27	2,494	4,773
Premises, equipment, and intangible assets	12	139,234	75,450
Right-of-use assets	13, 33	75,430	-
Other financial and non-financial assets	14, 33	217,012	219,987
TOTAL ASSETS		**10,690,883**	**9,340,866**
LIABILITIES			
Due to other banks	15, 33	216,421	1,055,894
Current accounts	16, 33	6,454,700	5,112,733
Deposits	16, 33	2,500,114	2,030,507
Lease liabilities	13, 33	73,752	-
Other borrowed funds	18	355,854	213,479
Other financial and non-financial liabilities	17, 33	99,825	68,198
Current income tax liabilities		12,096	6,320
Subordinated debt	19, 33	92,455	143,325
TOTAL LIABILITIES		**9,805,217**	**8,630,456**
EQUITY			
Share capital	21	639,104	523,110
Issue costs		(278)	(182)
Retained earnings		213,355	170,371
Reserve fund	21	23,218	17,108
Revaluation reserve for investment securities measured at fair value through other comprehensive income		10,267	3
TOTAL EQUITY		**885,666**	**710,410**
TOTAL LIABILITIES AND EQUITY		**10,690,883**	**9,340,866**

Authorized for issue by the Management Board and signed on its behalf on 29 April 2020.

Morokhovskyi, Vadym Viktorovych,
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» УКРАЇНА м. ДНІПРО І.К. 26237202

Siuskova, Olena Petrivna,
Chief Accountant

Statement of profit or loss and other comprehensive income

In Ukrainian Hryvnias and in thousands	**Notes**	**For 12 months of 2019**	**For 12 months of 2018**
Interest income	22, 33	1,160,417	992,763
Interest expense	22, 33	(504,919)	(420,789)
Net interest income before impairment losses on interest-bearing assets		*655,498*	*571,974*
Effect of initial recognition of interest-bearing assets		26,459	19,935
Impairment losses on interest-bearing assets	33	8,053	(44,858)
Net interest income		**690,010**	**547,051**
Services and commission income	23, 33	537,377	407,570
Services and commission expense	23, 33	(204,731)	(148,921)
Net gain/(loss) on transactions with derivative financial instruments		16,177	(2,054)
Net gain on foreign exchange operations	33	46,125	46,947
Net (loss) on foreign currency revaluation		(43,762)	(3,900)
Gain on initial recognition of financial liabilities at lower than market interest rates		21,231	-
Net (loss)/gain on change in provisions for other financial assets/liabilities		(99)	3,040
Results on modification and de-recognition of financial instruments	33	(23,349)	(25,576)
Other operating income	24	19,438	21,738
Net non-interest income		**368,407**	**298,844**
Staff related costs	25	(406,834)	(326,737)
Depreciation and amortization expenses	12,13	(96,607)	(44,018)
Administrative and other operating expenses	26, 33	(352,399)	(329,593)
Profit before income tax		**202,577**	**145,547**
Income taxes	27	(37,489)	(23,443)
PROFIT FOR THE YEAR		**165,088**	**122,104**
Other comprehensive income/(loss):			
Gain/(loss) on changes in fair value of investments in securities measured at fair value through other comprehensive income		12,517	(171)
Income taxes recorded directly in other comprehensive income		(2,253)	31
Other comprehensive income for the year		**10,264**	**(140)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**175,352**	**121,964**
Ordinary shares issued and fully paid (units)		3,073,500	3,073,500
Net earnings per ordinary share (in UAH per share for the period)		53.71	39.73

Authorized for issue by the Management Board and signed on its behalf on 29 April 2020.

Morokhovskyi, Vadym Viktorovych,
Chairman of the Management Board

«БАНК ВОСТОК»

Siuskova, Olena Petrivna,
Chief Accountant

In Ukrainian Hryvnias and in thousands	**Notes**	**Share capital**	**Issue costs**	**Revaluation reserve for investment securities measured at fair value through other comprehensive income**	**Reserve fund**	**Retained earnings**	**Total**
Balance as at 1 January 2018, including the effect of IFRS 9 application		**445,043**	**(94)**	**143**	**12,710**	**133,102**	**590,904**
Profit for the year		-	-	-	-	122,104	122,104
Loss on changes in fair value of investments in securities measured at fair value through other comprehensive income		-	-	(171)	-	-	(171)
Income taxes recognized in other comprehensive income		-	-	31	-	-	31
Other comprehensive income		-	-	(140)	-	-	(140)
Total comprehensive income for 2018		-	-	(140)	-	122,104	121,964
Charges to reserve fund	21	-	-	-	4,398	(4,398)	-
Increase in share capital at the cost of retained earnings	21	78,067	-	-	-	(78,067)	-
Issue costs		-	(88)	-	-	-	(88)
Results on fair value adjustment of financial instruments due to changes in contractual terms of transactions with shareholders	18	-	-	-	-	(2,370)	(2,370)
Balance as at 31 December 2018		**523,110**	**(182)**	**3**	**17,108**	**170,371**	**710,410**
Profit for the year		-	-	-	-	165,088	165,088
Gain on changes in fair value of investments in securities measured at fair value through other comprehensive income		-	-	12,517	-	-	12,517
Income taxes recognized in other comprehensive income		-	-	(2,253)	-	-	(2,253)
Other comprehensive income		-	-	10,264	-	-	10,264
Total comprehensive income for 2019		-	-	10,264	-	165,088	175,352
Charges to reserve fund	21	-	-	-	6,110	(6,110)	-
Increase in share capital at the cost of retained earnings	21	115,994	-	-	-	(115,994)	-
Issue costs		-	(96)	-	-	-	(96)
Balance as at 31 December 2019		**639,104**	**(278)**	**10,267**	**23,218**	**213,355**	**885,666**

Authorized for issue by the Management Board and signed on its behalf on 29 April 2020.

Morokhovskyi, Vadym Viktorovych,
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК» УКРАЇНА м. ДНІПРО І.К. 26237202

Siuskova, Olena Petrivna,
Chief Accountant

In Ukrainian Hryvnias and in thousands	Notes	For 12 months of 2019	For 12 months of 2018
Cash flows from operating activities			
Interest received		1,118,859	981,041
Interest paid		(498,164)	(405,733)
Fees and commissions received		536,375	406,773
Fees and commissions paid		(197,859)	(147,159)
Gain on transactions with derivative financial instruments		16,177	(2,597)
Gain on foreign exchange operations		46,125	46,947
Other operating income received		19,438	21,738
Administrative and other operating expenses paid		(345,566)	(329,850)
Staff costs paid		(391,784)	(321,657)
Income taxes paid		(31,687)	(27,056)
Cash generated from operating activities before changes in operating assets and liabilities		**271,914**	**222,447**
Net (increase)/decrease in:			
- Due from other banks		(389,250)	(38,261)
- Loans and advances to customers		(478,045)	(1,117,213)
- Other financial assets and other assets		(28,055)	(8,452)
Net increase/(decrease) in:			
- Due to other banks		(695,896)	357,166
- Current accounts		1,606,713	542,837
- Deposits		740,997	(91,365)
- Other financial liabilities and other liabilities		7,185	8,413
Net cash generated from/(used in) operating activities		**1,035,563**	**(124,428)**
Cash flows from investing activities			
Acquisition of premises, equipment, and intangible assets		(125,327)	(50,742)
Purchase of investment securities measured at fair value through other comprehensive income		(407,720)	-
Proceeds on sale and repayment of investment securities measured at fair value through other comprehensive income		2,565	801,094
Purchase of investment securities measured at amortized cost		(71,085,685)	(47,578,965)
Proceeds on repayment of investment securities measured at amortized cost		70,709,222	46,796,087
Net cash used in investing activities		**(906,945)**	**(32,526)**
Cash flows from financing activities			
Proceeds on other borrowed funds		213,732	-
Repayment of other borrowed funds		(11,360)	(13,871)
Funds borrowed on subordinated debt terms		-	56,823
Repayment of funds borrowed on subordinated debt terms		(35,000)	-
Repayment of lease liabilities		(34,136)	-
Issue costs		(96)	(88)
Net cash generated from financing activities		**133,140**	**42,864**
Effect of exchange rate changes on cash and cash equivalents		**(178,926)**	**(18,623)**
Net increase/(decrease) in cash and cash equivalents		**82,832**	**(132,713)**
Cash and cash equivalents at the beginning of the year	6	1,622,604	1,755,317
Cash and cash equivalents at the end of the year	6	**1,705,436**	**1,622,604**

Authorized for issue by the Management Board and signed on its behalf on 29 April 2020.

Morokhovskyi, Vadym Viktorovych,
Chairman of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank").

The Bank was established on 23 April 2002 and registered by the National Bank of Ukraine (hereinafter, the "NBU") on 17 October 2002 as CJSC "Agrobank". In December 2006, the Bank became a part of Home Credit Group. On 27 March 2009, the Bank was re-registered as open joint stock company and, on 27 May 2010, as public joint stock company.

On 21 December 2011, 100% of the Bank's shares were acquired by a group of legal entities and individuals. During 2012, changes in the shareholders' structure took place. As at 31 December 2019 and 2018, 100% of the Bank's shares were held by LLC "Vostok Capital".

Ultimate beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyi, and Ms. L. S. Morokhovska.

The Bank provides banking services to individuals and legal entities, including attracting deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies, and other services. The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate # 157 dated 19 November 2012), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" # 4452-VI dated 23 February 2012. Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case the National Bank of Ukraine takes a decision to include a bank into the insolvent category, and Individual Deposit Guarantee Fund commences a procedure on withdrawing a bank from the market.

As at 31 December 2019, the Bank had 40 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions. For comparison: as at 31 December 2018, the Bank had 36 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions.

The Bank's registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank's Head Office units are located at: 1b Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine.

Presentation currency. These financial statements are presented in Ukrainian Hryvnias ("UAH") and in thousands, unless otherwise indicated.

2 Operating environment of the Bank

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% 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 refocusing on the European Union (hereinafter, the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the NBU starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 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 degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019–2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections.

2 Operating environment of the Bank (continued)

All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from "B-" to "B", with a positive outlook.

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").

In addition to that, 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 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 Adoption of new and amended Standards

New and amended IFRS that are effective for the current year

Impact of initial application of IFRS 16 "Leases"

In the current year, the Bank has applied IFRS 16 that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of adoption of IFRS 16 on the financial statements of the Bank is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 by using the modified retrospective approach. Correspondingly, the comparative information has not been restated.

Impact of the new definition of a lease. The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 "Leases" and IFRS IC 4 "Determining Whether an Arrangement Contains a Lease" will continue to be applied to those contracts entered or modified before 1 January 2019.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project, which has shown that the new definition of a lease under IFRS 16 "Leases" will not change significantly a list of contracts that meet the definition of a lease.

Impact on lessee accounting

Operating leases: IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17.

3 Adoption of new and amended Standards (continued)

Applying IFRS 16 for the first time, for all leases (except as noted below), the Bank has:

- Recognized right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognized depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income;
- Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 "Impairment of Assets". This has replaced a previous requirement to recognize an allowance for loss-making leases.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture, etc.), the value of which is lower or equals to the equivalent of USD 5 thousand, the Bank has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within administrative and other operating expenses in the statement of profit or loss and other comprehensive income.

The Bank has used a unified discount rate for a portfolio of leases with similar characteristics.

Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular, with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Impact of initial application of IFRS 16 on the financial statements

The Bank has applied IFRS 16 by using the modified retrospective approach, according to which the comparative information has not been restated. The Bank has disclosed accounting policies under IFRS 16 (for the current period) and IAS 17 (for the comparative period presented).

As at 1 January 2019 the Bank recognized right-of-use assets in the amount of UAH 73,111 thousand and lease liabilities in the amount of UAH 69,208 thousand.

As at 1 January 2019 the weighted average discount rate on lease liabilities was 22.15 %.

The following table shows the lease liabilities under IAS 17 as at 31 December 2018 discounted at the date of initial application and the lease liabilities recognized in the statement of financial position at the date of initial application of IFRS 16.

	1 January 2019
Lease liabilities	
Operating lease liabilities as at 31 December 2018	98,775
Short-term leases and leases of low-value assets	(5,243)
Effect of discounting	(24,324)
Lease liabilities recognized as at 1 January 2019	69,208

Operating lease liabilities as at 31 December 2018 included in the table above in the amount of UAH 98,775 thousand differ from the operating lease liabilities disclosed in the financial statements as at 31 December 2018 in the amount of UAH 21,385 thousand. Such a difference is explained by the lease terms, in particular, a disclosure in the financial statements as at 31 December 2018 of the amount of future minimum payments under non-cancellable operating leases under IAS 17. Lease liabilities as at 1 January 2019 have been calculated on the basis of full contractual lease terms.

3 Adoption of new and amended Standards (continued)

Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation

The Bank has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that, for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. Adoption of the amendments has not had a material impact on the Bank's financial statement.

Adoption of the amendments below has not had a material impact on the Bank's financial position or performance and has not led to a material change in the Bank's accounting policies and amounts reported in the current or prior years:

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term interests in associates and joint ventures;
- Amendments to IAS 19 "Employee Benefits" – Plan amendment, curtailment, or settlement;
- Annual Improvements to IFRS Standards 2015–2017 Cycle (amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes", and IAS 23 "Borrowing Costs");
- Interpretation of IFRS IC 23 "Uncertainty over Income Tax Treatments".

Standards and Interpretations in issue but not yet effective

The Bank has not applied the following new and revised IFRS that have been in issue but are not yet effective:

Standards/Interpretations	Effective for the annual accounting periods beginning on or after:
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 IFRS 3 "Business Combinations" – Definition of business	1 January 2020
Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – Definition of material	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Annual Improvements to IFRS (2010–2012 Cycle), Amendments to IAS 1 "Presentation of Financial Statements" – Classification of liabilities as current and non-current	1 January 2022
Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform and its impact on financial reporting	1 January 2020

Management does not expect that adoption of the Standards listed above will have a material impact on operations and the financial statements of the Bank in future periods.

4 Summary of significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the IFRS Interpretations Committee ("IFRS IC").

These financial statements are presented in Ukrainian Hryvnias ("UAH") and in thousands, unless otherwise indicated.

4 Summary of significant accounting policies (continued)

Going concern. Management has prepared these financial statements on a going concern basis, which presupposes that the Bank will continue its operations in the foreseeable future. Management and shareholders are intending to further develop the Bank's operations in Ukraine. Management believes that using a going concern principle is appropriate for the Bank, considering that it has adequate capital ratio, shareholders intend to further support the Bank, and the historical experience evidencing that current liabilities are going to be refinanced in the course of normal business activities.

As at 31 December 2019, the Bank had a cumulative mismatch of financial assets and financial liabilities with a horizon of 12 months (Note 28). This liquidity mismatch arises due to the fact that a primary source of the Bank's funding are funds of customers and interbank deposits on demand. A significant portion of current customer accounts is represented by accounts on demand, in particular, deposits on demand and current accounts. Management believes that diversification of those accounts and previous experience of the Bank allow to state that most deposits on demand included in current accounts represent a long-term and stable source of the Bank's funding.

In addition, as at 31 December 2019, due to other banks included loans and deposits from a related party (entity under common control) in the amount of UAH 208,021 thousand that, if required, may be extended for a respective period.

Based on the above, management anticipates that the Bank will be able to fulfill its obligations in a timely manner and continue as a going concern in the foreseeable future.

Basis of preparation. These financial statements have been prepared on the historical cost basis, except for certain financial instruments. A summary of significant accounting policies used in preparing these financial statements is presented below.

Net interest income. Interest income and expense for all financial instruments, except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net Interest Income' as 'Interest Income' and 'Interest Expense' using the effective interest rate method.

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 contractual terms of the instrument.

The calculation of EIR includes all fees and payments 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.

Interest income/interest expense is calculated by applying 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, interest income is calculated by applying EIR to the amortized cost of 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), EIR reflects ECLs in determining the future cash flows expected to be received from the financial asset.

Services and commission income/expense. Services and commission income and expense include fees, other than those that are an integral part of EIR. The fees included in the respective part of the Bank's statement of profit or loss and other comprehensive income include, among other things, fees charged for servicing loans, non-utilization fees relating to loan commitments when it is unlikely that those will result in a specific lending arrangement, fees for monitoring a collateral, for changing primary lending terms on the borrower's initiative, etc.

Services and commission expenses with regards to services are accounted for as the services 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. Financial assets 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.

4 Summary of significant accounting policies (continued)

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the Bank'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 (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank makes the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis. Specifically:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies, in OCI; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

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.

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 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 Bank'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).

4 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.

Modifications in contractual cash flows are analyzed in accordance with the accounting policies set out below ("Modification and De-recognition of Financial Assets").

Reclassifications. 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 apply 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.

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

- Cash and cash equivalents;
- Balances with the National Bank of Ukraine;
- Due from other banks;
- Loans and advances to customers;
- Investment securities;
- Other financial assets;
- Other financial liabilities and financial guarantees issued.

No impairment loss is recognized on equity investments.

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).

For more details about staging refer to Note 28.

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, allowances for ECLs are measured at an amount equal to 12-month ECLs.

The Bank estimates the expected credit losses on a financial instrument in the manner that reflects:

- An objective and probability-weighted amount determined by assessing a certain range of possible results;
- Time value of money;
- Reasonable and supportable information about past events, current conditions, and forward-looking information about economic conditions that is available without undue cost or effort as at the reporting date.

Expected credit losses are measured for separate loans (an individual basis) or loan portfolios with similar risk characteristics (a collective basis).

4 Summary of significant accounting policies (continued)

Expected credit losses represent an estimate of the present value of credit losses, with reference to probability of their occurrence. 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 original EIR.

The Bank measures ECLs on an individual basis based on the discounted cash flows using several probability-weighted scenarios.

The Bank considers several scenarios regarding the recovery of funds from a borrower under each financial asset and analyzes each of them, even when the recovery under that scenario is very low.

In calculating an allowance for financial instruments measured on a collective basis, the Bank applies two approaches:

- General approach (for cash flows) is used for all financial assets under which repayment schedules are clearly defined and off-balance-sheet instruments (other than loan commitments);
- Simplified approach is used for all financial instruments under which repayment schedules cannot be clearly defined.

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, which are described in detail in Note 28. Credit-impaired financial assets are referred to as Stage 3 assets.

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 includes unlikeliness to pay indicators and a back-stop 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.

Key events that may evidence of default for a financial asset or a group of financial assets are described in detail in Note 28.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

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.

4 Summary of significant accounting policies (continued)

Significant increase in credit risk. The Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to the impairment 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. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments, and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

The Bank uses a rebuttable presumption 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.

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

When a financial asset 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. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10%, the Bank deems the arrangement is substantially different leading to de-recognition.

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 in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

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

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

4 Summary of significant accounting policies (continued)

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 ECL 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 flows 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.

On de-recognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off of assets. 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 increase in impairment gains.

Presentation of allowance for ECLs in the statement of financial position. Loss allowances for ECLs are presented in the 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: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- 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.

4 Summary of significant accounting policies (continued)

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.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss.

Derivative financial instruments. The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to credit risk and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate and currency swaps.

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. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, 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 not designated at FVTPL are presented as provisions in the statement of financial position and the re-measurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

Fair value is 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. The best evidence of fair value is price in an active market. An active market is one in which transactions with the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for an individual asset or liability and their number held by the Bank. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Bank, and placing orders to sell the position in a single transaction might affect the quoted price. The price within a bid-ask spread that, according to the Bank's management, is most representative of fair value in the circumstances is the average of actual trading prices at the reporting date.

4 Summary of significant accounting policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if a change in any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets, or total liabilities. Fair value measurements are analyzed by levels in the fair value hierarchy as follows: (i) Level One are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level Two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and (iii) Level Three measurements are valuations that are not based on observable market data (i.e. valuation require significant application of parameters with unobservable inputs).

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include correspondent accounts with other banks and balances with the National Bank of Ukraine, other than the amount of mandatory reserves. Cash and cash equivalents are carried at amortized cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. These accounts receivable are not related to derivative financial instruments and have no market quotations. Amounts due from other banks are carried at amortized cost.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties, or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and allowance for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is written-off.

At the end of each reporting period, management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value, less costs to sell, and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value, less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year within other operating income or expense.

Depreciation. Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives (in years)
Premises	20
Vehicles	5–10
Office and computer equipment	1–10
Leasehold improvements	Over the period of underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

4 Summary of significant accounting policies (continued)

Intangible assets. The Bank's intangible assets have definite useful lives and primarily include capitalized computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful lives of 2–10 years.

Operating leases (under IAS 17 "Leases" for comparable data for the previous period). Where the Bank is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. Due to other banks is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortized cost.

Other borrowed funds. Other borrowed funds include borrowings from banking and non-banking financial institutions. Other borrowed funds are stated at amortized cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with the legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds (issue costs).

4 Summary of significant accounting policies (continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue are disclosed in the note "Events after the Reporting Period". Distribution of profit and its usage otherwise occurs on the basis of the financial statements of the Bank. The Ukrainian legislation identifies the basis of distribution as retained earnings.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank and the Bank's presentation currency is the national currency of Ukraine, Ukrainian Hryvnia ("UAH").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the NBU, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2019 and 2018, major exchange rates established by the NBU that the Bank used in translating foreign currency denominated amounts were as follows:

	31 December 2019	31 December 2018
UAH/USD 1	23.686200	27.688264
UAH/EUR 1	26.422000	31.714138

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default, and (iii) the event of insolvency or bankruptcy.

Staff costs and related charges. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leaves and sick leaves, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Reclassifications. The financial statements of the Bank for the year ended 31 December 2018 were reclassified to bring the presentation of certain assets in line with the presentation format of the financial statements for the year ended 31 December 2019.

5 Critical accounting estimates and judgments used in applying accounting policies

The Bank makes estimates and judgments that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually reviewed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

5 Critical accounting estimates and judgments used in applying accounting policies (continued)

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 judgement 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. As explained in Note 4, 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. Refer to Note 28 for more details.

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. Refer to Note 28 for details of the characteristics considered in this judgment. 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 ECLs changes because the credit risk of the portfolios differ.

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. See Note 28 for more details on ECLs and Note 32 for more details on fair value measurement.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 33.

Key sources of estimation uncertainty

Listed below are key estimations that management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

5 Critical accounting estimates and judgments used in applying accounting policies (continued)

Determining and estimating scenarios of expected cash flows and their probabilities on loans and advances to customers measured on an individual basis. In estimating the degree of credit losses on loans and advances to customers measured on an individual basis, the Bank uses significant judgments of management to determine the expected future cash flows on the basis of probable scenarios. The Bank considers several scenarios in respect of the recovery of funds from borrowers and takes into account each of the scenarios, with reference to their relative probabilities. In analyzing future cash flows, all information is taken into account available at the moment of allowance calculation, both internal and external, that is based on open sources, as well as assumptions and projections. The Bank determines the probability for exercising each scenario for the financial instruments measured on an individual basis, with reference to the information available in respect of borrowers and their financial positions, current and forward-looking macroeconomic conditions, as well as considering the Bank's experience, based on judgments and reasonable assumptions. The Bank uses all available and accessible information obtained without excessive efforts that may have an effect on probability of one or several scenarios.

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments.

Tax legislation. Due to the presence in the Ukrainian tax legislation 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, the Bank may be assessed additional taxes, penalties, and interest, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities. Tax records remain open to review by the tax authorities for three years.

Lease term and a rate for discounting right-of-use assets and lease liabilities. The estimation of a lease term commonly presupposes significant judgments on behalf of the Bank as to a possibility to extend the lease, its termination by a lessee or a lessor, potential penalties for termination and other regulatory limitations on extension of the lease. A discount rate (or the lessee's incremental borrowing rate) is calculated on the basis of significant judgments, since it is calculated as an interest the lessee would pay in order to make a borrowing for a similar term and using a similar collateral required to obtain the asset of the value similar to a right-of-use asset in similar economic conditions.

6 Cash and cash equivalents

The Bank's cash and cash equivalents for the purposes of the statement of cash flows were as follows:

In Ukrainian Hryvnias and in thousands	**31 December 2019**	**31 December 2018**
Cash	893,484	687,234
Balances with the National Bank of Ukraine (Note 7)	407,234	405,956
Correspondent accounts with other banks (Note 8)	404,718	529,414
Cash and cash equivalents for the purposes of the statement of cash flows	**1,705,436**	**1,622,604**

7 Balances with the National Bank of Ukraine

As at 31 December 2019, balances with the National Bank of Ukraine amounted to UAH 407,234 thousand (31 December 2018: UAH 405,956 thousand).

8 Due from other banks

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Correspondent accounts with other banks	406,910	531,560
Term deposits with other banks	416,218	42,189
Less: Allowance for expected credit losses	(3,562)	(2,154)
Total due from other banks	**819,566**	**571,595**

Amounts due from other banks are not collateralized. Movements in allowances for expected credit losses on due from other banks were as follows.

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
As at 1 January 2018	**(663)**	**(1)**	**(664)**
Charges to allowance	(1,483)	(7)	(1,490)
As at 31 December 2018	**(2,146)**	**(8)**	**(2,154)**
Charges to allowance	(46)	(1,362)	(1,408)
As at 31 December 2019	**(2,192)**	**(1,370)**	**(3,562)**

Analysis by credit quality of amounts due from other banks as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
Stage 1			
AA- to AA+ rated	287,357	36,192	323,549
BB- to BBB+ rated	104,248	189,839	294,087
B- to B+ rated	3,655	400	4,055
C to CCC+ rated	10,366	245	10,611
Unrated	-	189,542	189,542
Total on Stage 1	**405,626**	**416,218**	**821,844**
Allowance for expected credit losses (Stage 1)	**(908)**	**(1,370)**	**(2,278)**
Stage 3			
- Not expired	1,284	-	1,284
Total on Stage 3	**1,284**	**-**	**1,284**
Allowance for expected credit losses (Stage 3)	**(1,284)**	**-**	**(1,284)**
Less: Allowance for expected credit losses on due from other banks	(2,192)	(1,370)	(3,562)
Total due from other banks	**404,718**	**414,848**	**819,566**

Credit ratings are based on Standard & Poor's ratings where available, or Fitch's and Moody's ratings converted to the nearest equivalent on the Standard & Poor's rating scale.

As at 31 December 2019, included in the category of "Unrated" were funds in the amount of UAH 189,542 thousand placed with one Ukrainian bank with foreign capital that had no credit rating assigned by international rating agencies. However, as at 31 December 2019, the credit rating of the said bank was confirmed by a domestic rating agency at the level of uaAAA.

8 Due from other banks (continued)

Analysis by credit quality of amounts due from other banks as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Correspondent accounts with other banks	Term deposits with other banks	Total
Stage 1			
AA- to AA+ rated	344,847	41,747	386,594
BB- to BBB+ rated	173,551	95	173,646
Unrated	11,624	347	11,971
Total on Stage 1	**530,022**	**42,189**	**572,211**
Allowance for expected credit losses (Stage 1)	**(608)**	**(8)**	**(616)**
Stage 3			
- Not expired	1,476	-	1,476
- Past due over 360 days	62	-	62
Total on Stage 3	**1,538**	**-**	**1,538**
Allowance for expected credit losses (Stage 3)	**(1,538)**	**-**	**(1,538)**
Less: Allowance for expected credit losses on due from other banks	(2,146)	(8)	(2,154)
Total due from other banks	**529,414**	**42,181**	**571,595**

As at 31 December 2019, the Bank placed its funds, before allowance, on the accounts with 5 counterparty banks (2018: 5 counterparty banks) in the amount of UAH 812,565 thousand (2018: UAH 570,259 thousand), or 99% of the total due from other banks (2018: 99%).

Analysis of due from other banks by interest rates, as well as geographical concentration, foreign currency, and liquidity risks is presented in Note 28.

9 Loans and advances to customers

As at 31 December 2019, total balance of the Bank's loans and advances to customers consisted by 98.5% of loans and advances to legal entities measured at amortized cost and by 1.5% of loans and advances to individuals measured at amortized cost (31 December 2018: 99.4% and 0.6%, respectively).

Loans to customers were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Loans to legal entities	6,660,634	6,778,803
Loans to individuals:		
– Consumer loans	53,442	23,626
– Mortgage loans	27,430	2,035
– Credit card loans	22,659	16,122
– Car loans	152	888
Total loans and advances to customers, before allowance for expected credit losses	**6,764,317**	**6,821,474**
Less: Allowance for expected credit losses	(240,463)	(254,460)
Total loans and advances to customers	**6,523,854**	**6,567,014**

9 Loans and advances to customers (continued)

Movements in allowance for expected credit losses on loans and advances to customers during 2019 were as follows:

In Ukrainian Hryvnias and in thousands	Loans to legal entities	Consumer loans	Credit card loans	Mortgage loans	Total
Allowance for expected credit losses as at 31 December 2018	**253,151**	**777**	**530**	**2**	**254,460**
Allowance/(decrease in allowance) for expected credit losses during the year	(10,152)	(7)	655	43	(9,461)
Adjustment of allowance due to POCI loan repayment	6,225	-	-	-	6,225
Loans sold/written off during the year	(9,250)	(1)	(152)	-	(9,403)
Interest adjustment	(1,358)	-	-	-	(1,358)
Allowance for expected credit losses as at 31 December 2019	**238,616**	**769**	**1,033**	**45**	**240,463**

Movements in allowance for expected credit losses on loans and advances to customers during 2018 were as follows:

In Ukrainian Hryvnias and in thousands	Loans to legal entities	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Allowance for expected credit losses as at 1 January 2018	**245,095**	**44**	**543**	-	**132**	**245,814**
Allowance/(decrease in allowance) for expected credit losses during the year	42,700	733	65	2	(132)	43,368
Amounts written off during the year as irrecoverable	(34,644)	-	(78)	-	-	(34,722)
Allowance for expected credit losses as at 31 December 2018	**253,151**	**777**	**530**	**2**	-	**254,460**

Risk concentrations within the customer loan portfolio by sectors of economy were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Trade	2,903,359	43	3,308,926	49
Manufacturing	1,052,592	16	928,490	14
Agriculture, fishery, and food processing	1,011,662	15	708,136	10
Transport and communication	606,643	9	899,781	13
Construction and real estate operations	597,164	9	514,170	7
Financial and investment operations	186,722	3	174,142	2
Loans to individuals	103,683	1	42,671	1
Tourist and hotel services, restaurant business	86,503	1	135,501	2
Other services	215,989	3	109,657	2
Total loans and advances to customers (before allowance for expected credit losses)	**6,764,317**	**100**	**6,821,474**	**100**

9 Loans and advances to customers (continued)

As at 31 December 2019, total gross value of the loans granted to top 10 borrowers of the Bank (31 December 2018: 10 borrowers) amounted to UAH 1,520,129 thousand (31 December 2018: UAH 1,723,448 thousand), or 22% of the total loan portfolio (31 December 2018: 25%). At the same time, as at 31 December 2019, exposures of top 10 borrowers were partly covered by the collateral of property rights to deposits in the amount of UAH 225,931 thousand (31 December 2018: UAH 378,259 thousand).

Information about collateral in respect of loans as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	**Loans to legal entities**	**Consumer loans**	**Credit card loans**	**Mortgage loans**	**Car loans**	**Total**
Unsecured loans	1,030,418	16,404	22,453	489	59	**1,069,823**
Loans collateralized by:						
- Residential real estate items	153,065	8,897	-	26,941	-	**188,903**
- Other real estate items	2,737,039	25,934	-	-	-	**2,762,973**
- Cash deposits	450,510	593	206	-	-	**451,309**
- Other assets	2,289,602	1,614	-	-	93	**2,291,309**
Total loans and advances to customers (before allowance for expected credit losses)	**6,660,634**	**53,442**	**22,659**	**27,430**	**152**	**6,764,317**

Items in the tables above are represented by a lower of the gross carrying value of loans, before allowance for expected credit losses, or collateral taken; with the remaining part disclosed within unsecured exposures. The carrying value of loans was allocated based on the liquidity of assets taken as collateral in the following order: cash deposits, residential real estate, other real estate, other assets.

As at 31 December 2019, impaired loans and purchased or credit-impaired loans with gross carrying value of UAH 210,742 thousand (31 December 2018: UAH 427,963 thousand) were secured by the collateral represented mostly by real estate and other assets in the amount of UAH 187,036 thousand (31 December 2018: UAH 395,526 thousand), or 89% (31 December 2018: 92%).

Fair value of properties pledged as collateral during the reporting period was assessed by independent experts – professional appraisers. "Other Assets" category includes the following types of collateral: other movable property, other property rights, and other types of assets.

Information about collateral in respect of loans as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	**Loans to legal entities**	**Consumer loans**	**Credit card loans**	**Mortgage loans**	**Car loans**	**Total**
Unsecured loans	777,536	7,592	15,961	43	153	**801,285**
Loans collateralized by:						
- Residential real estate items	165,356	7,551	-	1,992	85	**174,984**
- Other real estate items	2,802,186	1,371	-	-	-	**2,803,557**
- Cash deposits	529,482	5,894	161	-	-	**535,537**
- Other assets	2,504,243	1,218	-	-	650	**2,506,111**
Total loans and advances to customers (before allowance for expected credit losses)	**6,778,803**	**23,626**	**16,122**	**2,035**	**888**	**6,821,474**

9 Loans and advances to customers (continued)

Analysis of loans by credit quality as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	Loans to legal entities	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Stage 1						
- Not expired	5,360,850	52,128	21,248	27,430	152	5,461,808
- Past due less than 30 days	-	-	445	-	-	445
Total on Stage 1	**5,360,850**	**52,128**	**21,693**	**27,430**	**152**	**5,462,253**
Stage 2, loans with a significant increase in risk						
- Not expired	1,091,075	-	-	-	-	1,091,075
- Past due from 30 to 90 days	-	-	247	-	-	247
Total on Stage 2, loans with a significant increase in risk	**1,091,075**	**-**	**247**	**-**	**-**	**1,091,322**
Stage 3, impaired loans						
- Not expired	202,041	-	-	-	-	202,041
- Past due from 30 to 90 days	920	-	-	-	-	920
- Past due from 91 to 180 days	4,267	-	306	-	-	4,573
- Past due from 181 to 360 days	1,089	826	100	-	-	2,015
- Past due more than 360 days	105	488	313	-	-	906
Total on Stage 3, impaired loans	**208,422**	**1,314**	**719**	**-**	**-**	**210,455**
Purchased or originated credit impaired loans						
- Past due from 30 to 90 days	287	-	-	-	-	287
Total loans and advances to customers (before allowance for expected credit losses)	**6,660,634**	**53,442**	**22,659**	**27,430**	**152**	**6,764,317**
Less: Allowance for expected credit losses	**(238,616)**	**(769)**	**(1,033)**	**(45)**	**-**	**(240,463)**
Total loans and advances to customers	**6,422,018**	**52,673**	**21,626**	**27,385**	**152**	**6,523,854**

9 Loans and advances to customers (continued)

Analysis of loans by credit quality as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Loans to legal entities	Consumer loans	Credit card loans	Mortgage loans	Car loans	Total
Stage 1						
- Not expired	5,168,656	22,701	14,775	2,035,	590	5,208,757
- Past due less than 30 days	1,531	6	936	-	-	2,473
Total on Stage 1	**5,170,187**	**22,707**	**15,711**	**2,035**	**590**	**5,211,230**
Stage 2, loans with a significant increase in risk						
- Not expired	1,181,058	-	-	-	-	1,181,058
- Past due from 30 to 90 days	-	888	37	-	298	1,223
Total on Stage 2, loans with a significant increase in risk	**1,181,058**	**888**	**37**	**-**	**298**	**1,182,281**
Stage 3, impaired loans						
- Not expired	206,351	-	-	-	-	206,351
- Past due from 91 to 180 days	-	29	58	-	-	87
- Past due from 181 to 360 days	22,433	-	37	-	-	22,470
- Past due more than 360 days	118,152	2	279	-	-	118,433
Total on Stage 3, impaired loans	**346,936**	**31**	**374**	**-**	**-**	**347,341**
Purchased or originated credit impaired loans						
- Not expired	28,919	-	-	-	-	28,919
- Past due from 30to 90 days	51,703	-	-	-	-	51,703
Total loans and advances to customers (before allowance for expected credit losses)	**6,778,803**	**23,626**	**16,122**	**2,035**	**888**	**6,821,474**
Less: Allowance for expected credit losses	**(253,151)**	**(777)**	**(530)**	**(2)**	**-**	**(254,460)**
Total loans and advances to customers	**6,525,652**	**22,849**	**15,592**	**2,033**	**888**	**6,567,014**

9 Loans and advances to customers (continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ('over-collateralized assets') and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ('under-collateralized assets').

The effect of collateral as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	**Over-collateralized assets**		**Under-collateralized assets**	
	Gross carrying value of assets	**Fair value of collateral**	**Gross carrying value of assets**	**Fair value of collateral**
Loans to legal entities	5,077,831	13,144,668	1,582,803	552,384
Loans to individuals				
- Consumer loans	36,903	251,192	16,539	135
- Mortgage loans	4,613	9,610	22,817	22,329
- Credit card loans	206	619	22,453	-
- Car loans	93	1,899	59	-
Total	**5,119,646**	**13,407,988**	**1,644,671**	**574,848**

The effect of collateral as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	**Over-collateralized assets**		**Under-collateralized assets**	
	Gross carrying value of assets	**Fair value of collateral**	**Gross carrying value of assets**	**Fair value of collateral**
Loans to legal entities	5,516,790	12,448,002	1,262,013	484,477
Loans to individuals				
- Consumer loans	14,777	111,941	8,849	1,257
- Credit card loans	161	651	15,961	-
- Mortgage loans	1,412	4,184	623	580
- Car loans	735	5,382	153	-
Total	**5,533,875**	**12,570,160**	**1,287,599**	**486,314**

The fair value of collateral is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This amount excludes potential expenses associated with collection of debt through foreclosure of collateral, and the time value of money inherent in discounting expected cash flows from the sale of collateral. Net value of collateral after litigation costs, selling expenses, and other costs from collection of debt through foreclosure of collateral may differ from its fair value.

Fair values of real estate properties were estimated by management based on market prices for similar assets adjusted, where appropriate, for differences in location, quality, and other relevant characteristics.

Other information on loans and advances to customers (a detailed analysis of movements in allowances for expected credit losses and their allocation by impairment stages) is provided in Note 28.

Analysis of loans and advances to customers by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

10 Investment securities measured at fair value through other comprehensive income

In Ukrainian Hryvnias and in thousands	**31 December 2019**	**31 December 2018**
Domestic government loan bonds	421,012	98
Total debt securities	**421,012**	**98**
Total investment securities measured at fair value through other comprehensive income	**421,012**	**98**

Analysis of investments securities by credit quality as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	**Domestic government loan bonds**	**Total**
Neither past due nor impaired		
B- to B+ rated	421,012	421,012
Total neither past due nor impaired	**421,012**	**421,012**
Total investments securities measured at fair value through other comprehensive income	**421,012**	**421,012**

Analysis of investments securities by credit quality as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	**Domestic government loan bonds**	**Total**
Neither past due nor impaired		
B- to B+ rated	98	98
Total neither past due nor impaired	**98**	**98**
Total investments securities measured at fair value through other comprehensive income	**98**	**98**

Investments securities have no collateral.

Analysis of investment securities measured at fair value through other comprehensive income by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Fair values of investment securities measured at fair value through other comprehensive income are disclosed in Note 32.

11 Investment securities measured at amortized cost

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Deposit certificates issued by the NBU	1,121,909	752,684
Domestic government loan bonds	69,654	56,075
Total investment securities measured at amortized cost	**1,191,563**	**808,759**

Analysis of investment securities measured at amortized cost by credit quality as at 31 December 2019 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Deposit certificates issued by the NBU	Total
Neither past due nor impaired			
B- to B+ rated	69,654	1,121,909	1,191,563
Total neither past due nor impaired	**69,654**	**1,121,909**	**1,191,563**
Total investment securities measured at amortized cost	**69,654**	**1,121,909**	**1,191,563**

Analysis of investment securities measured at amortized cost by credit quality as at 31 December 2018 was as follows:

In Ukrainian Hryvnias and in thousands	Domestic government loan bonds	Deposit certificates issued by the NBU	Total
Neither past due nor impaired			
B- to B+ rated	56,075	752,684	808,759
Total neither past due nor impaired	**56,075**	**752,684**	**808,759**
Total investment securities measured at amortized cost	**56,075**	**752,684**	**808,759**

Analysis of investment securities measured at amortized cost by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Fair values of investment securities measured at amortized cost are disclosed in Note 32.

12 Premises, equipment, and intangible assets

In Ukrainian Hryvnias and in thousands	Leasehold improve-ments	Vehicles	Office and computer equipment	Construction in progress	Total premises and equipment	Intangible assets	Total
Cost as at 1 January 2018	20,538	14,149	111,079	1,221	146,987	30,176	177,163
Accumulated depreciation and amortization	(13,807)	(6,828)	(67,385)	-	(88,020)	(20,417)	(108,437)
Net book value as at 1 January 2018	**6,731**	**7,321**	**43,694**	**1,221**	**58,967**	**9,759**	**68,726**
Additions	4,849	3,044	31,225	1,279	40,397	10,432	50,829
Disposals	-	-	(87)	-	(87)	-	(87)
Depreciation and amortization charges	(5,902)	(2,629)	(25,123)	-	(33,654)	(10,364)	(44,018)
Net book value as at 31 December 2018	**5,678**	**7,736**	**49,709**	**2,500**	**65,623**	**9,827**	**75,450**
Cost as at 31 December 2018	25,387	17,193	141,956	2,500	187,036	39,462	226,498
Accumulated depreciation and amortization	(19,709)	(9,457)	(92,247)	-	(121,413)	(29,635)	(151,048)
Net book value as at 31 December 2018	**5,678**	**7,736**	**49,709**	**2,500**	**65,623**	**9,827**	**75,450**
Additions	5,261	8,400	87,241	9	100,911	20,661	121,572
Disposals	-	-	(1,371)	-	(1,371)	-	(1,371)
Depreciation and amortization charges	(3,124)	(2,999)	(41,367)	-	(47,490)	(8,927)	(56,417)
Net book value as at 31 December 2019	**7,815**	**13,137**	**94,212**	**2,509**	**117,673**	**21,561**	**139,234**
Cost as at 31 December 2019	30,648	25,593	227,742	2,509	286,492	59,344	345,836
Accumulated depreciation and amortization	(22,833)	(12,456)	(133,530)	-	(168,819)	(37,783)	(206,602)
Net book value as at 31 December 2019	**7,815**	**13,137**	**94,212**	**2,509**	**117,673**	**21,561**	**139,234**

As at 31 December 2019 fully depreciated assets continued to be used by the Bank amounted to UAH 105,369 thousand (31 December 2018: UAH 72,788 thousand).

13 Right-of-use assets and lease liabilities

In Ukrainian Hryvnias and in thousands	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2019	**72,528**	**583**	**73,111**
Accumulated depreciation as at 1 January 2019	-	-	-
Additions	26,867	36	26,903
Modification	15,611	(3)	15,608
Disposals	-	(2)	(2)
Depreciation charges	(39,926)	(264)	(40,190)
Net book value as at 31 December 2019	**75,080**	**350**	**75,430**

The Bank primarily rents buildings and motor vehicles. Average lease term is three years.

In 2019 right-of-use assets had the following effect on the Bank's financial results:

In Ukrainian Hryvnias and in thousands	31 December 2019
Amounts recognized in profit or loss	
Depreciation of right-of-use assets	(40,190)
Interest expense on lease liabilities	(11,484)
Expense related to short-term leases	(1,120)
Expense related to leases of low-value items	(2,916)
Total effect on financial results	**(55,710)**

Movements of lease liabilities for 2019 were as follows:

In Ukrainian Hryvnias and in thousands	For 12 months of 2019
Initial recognition	69,208
Increase in lease liabilities	38,680
Interest accrued	11,484
Lease liabilities repaid	(45,620)
Total lease liabilities as at 31 December 2019	**73,752**

Lease liabilities based on maturities were as follows:

	31 December 2019
Lease liabilities	
Up to one year	41,154
From one to two years	25,913
From two to three years	6,685
Total lease liabilities	**73,752**

14 Other financial and non-financial assets

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Other financial assets		
Restricted cash	181,632	189,926
Other financial assets	8,757	6,058
Total other financial assets	**190,389**	**195,984**
Other non-financial assets		
Deferred expense	14,671	15,194
Accounts receivable on assets and services purchased	8,996	5,340
Repossessed collateral by the Bank	2,073	3,336
Taxes prepaid, other than income taxes	180	84
Other assets	703	49
Total other non-financial assets	**26,623**	**24,003**
Total other financial and non-financial assets	**217,012**	**219,987**

Restricted cash comprises the guarantee cover placed by the Bank within payment systems Visa and Master Card. This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand.

Analysis of other financial assets by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28.

15 Due to other banks

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Short-term borrowings received	86,118	857,470
Term deposits	66,092	142,804
Correspondent accounts and overnight deposits of other banks	64,211	55,620
Total due to other banks	**216,421**	**1,055,894**

As at 31 December 2019, the largest exposure on correspondent accounts of other banks related to a non-resident bank and amounted to UAH 56,219 thousand, which represented 87.6% of total correspondent accounts and overnight deposits of other banks (31 December 2018: UAH 28,620 thousand, which represented 51.5% of total correspondent accounts and overnight deposits of other banks).

As at 31 December 2019, the largest exposure on short-term borrowings received from other banks related to a non-resident bank and amounted to UAH 86,118 thousand, which represented 100% of total short-term borrowings received from other banks (31 December 2018: UAH 857,470 thousand, which represented 100% of total short-term borrowings received from other banks).

As at 31 December 2019, due to other banks represented by a term deposit from a non-resident bank totaled to UAH 66,092 thousand at the rate 3.68% in EUR (31 December 2018: UAH 142,804 thousand at the rate 3.68% in EUR).

Analysis of due to other banks by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

16 Current accounts and deposits

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Current accounts		
- Current accounts of legal entities	5,191,853	4,176,542
- Current accounts of individuals	1,262,847	936,191
Total current accounts	**6,454,700**	**5,112,733**
Deposits		
- Deposits of legal entities	589,055	480,419
- Deposits of individuals	1,911,059	1,550,088
Total deposits	**2,500,114**	**2,030,507**
Total current accounts and deposits	**8,954,814**	**7,143,240**

As at 31 December 2019, included in current accounts balances were demand deposits totaling to UAH 126,758 thousand (31 December 2018: UAH 143,142 thousand), of which UAH 62,257 thousand related to individuals (31 December 2018: UAH 76,886 thousand) and UAH 64,501 thousand related to legal entities (31 December 2018: UAH 66,256 thousand). These deposits carried interest rates ranging from 0.01% to 16% p.a. depending on remaining balance of the account.

As at 31 December 2019, current accounts of 10 largest customers of the Bank amounted to UAH 1,813,763 thousand (31 December 2018: UAH 1,279,756 thousand), or 28% (31 December 2018: 25%) of total current accounts.

As at 31 December 2019, deposits of 10 largest customers of the Bank amounted to UAH 719,060 thousand (31 December 2018: UAH 789,837 thousand), or 29% (31 December 2018: 39%) of total deposits.

As at 31 December 2019, customer accounts included balances totaling to UAH 477,911 thousand (31 December 2018: UAH 650,358 thousand) placed by customers as collateral to secure for loans to customers totaling to UAH 451,309 thousand (31 December 2018: UAH 535,537 thousand). Refer to Note 9.

Current accounts allocated by economic sectors were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019 Amount	%	31 December 2018 Amount	%
Transport, telecommunications	1,836,231	28	1,535,348	30
Trade	1,513,143	23	1,023,845	20
Individuals	1,262,847	20	936,191	18
Processing industry	526,583	8	369,236	7
Construction	370,701	6	196,685	4
Financial intermediaries	318,344	5	250,399	5
Professional services	273,446	4	230,702	5
Agriculture	197,986	3	333,452	7
Other	155,419	3	236,875	4
Total current accounts	**6,454,700**	**100**	**5,112,733**	**100**

16 Current accounts and deposits (continued)

Deposits allocated by economic sectors were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019 Amount	%	31 December 2018 Amount	%
Individuals	1,911,059	76	1,550,088	76
Processing industry	166,720	7	29,146	1
Transport, telecommunications	120,744	5	124,509	6
Professional services	100,560	4	185,570	9
Trade	40,664	2	91,588	5
Other	160,367	6	49,606	3
Total deposits	**2,500,114**	**100**	**2,030,507**	**100**

Analysis of customer accounts by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28. Balances on related party transactions are disclosed in Note 33.

17 Other financial and non-financial liabilities

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Accounts payable on assets and services purchased	22,101	16,493
Settlements with customers	16,684	14,993
Expenses accrued on services	9,093	2,443
Provisions for financial liabilities	699	601
Accounts payable on settlements under transfers	147	211
Other financial liabilities	3,845	2,896
Total other financial liabilities	**52,569**	**37,637**
Provisions for vacations	35,007	20,059
Payables to Individual Deposit Guarantee Fund	5,424	4,744
Taxes payable, other than income taxes	2,656	2,602
Other	4,169	3,156
Total other liabilities	**47,256**	**30,561**
Total other financial and non-financial liabilities	**99,825**	**68,198**

Analysis of other financial liabilities by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28.

18 Other borrowed funds

Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8,000 thousand. The borrowing is repayable in 32 (thirty two) equal instalments every three months after 24 months of the borrowing's use starting from 20 December 2019. In 2019, the Bank repaid USD 250 thousand. The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine.

In February 2019, the Bank entered into another agreement with WORLDBUSINESS CAPITAL, INC., USA, and, in March 2019, received a long-term borrowing for the period of 9 years in the amount of USD 8,000 thousand. The principal of the borrowing is repayable in 34 (thirty four) instalments as at each payment date starting from 20 December 2019. In 2019, the Bank repaid USD 236 thousand.

The borrowing was received against guarantees of OVERSEAS PRIVATE INVESTMENT CORPORATION, USA, with the purpose of promoting lending to small and medium businesses in Ukraine (besides, at least 25% should be directed to lending businesses owned or managed by women).

18 Other borrowed funds (continued)

The contractual interest rates are based on 3-month USD LIBOR rate plus margin of 4.75% and 4.30%, respectively, which, as at 31 December 2019, amounted to 6.6875% and 6.2375%, respectively (31 December 2018: 7.5625%). Interest is payable on a three month basis over the term of the borrowing agreement.

As at 31 December 2019, carrying value of borrowings amounted to UAH 355,854 thousand (31 December 2018: UAH 213,479 thousand).

Collaterals on other borrowed funds described above are disclosed in Note 30.

The Bank should comply with certain covenants relating to its other borrowed funds. Non-compliance with those financial ratios may lead to negative consequences for the Bank, including a demand of early repayment of funds by the borrower at a lender's discretion.

As at 31 December 2019 and 2018, the Bank complied with the covenants imposed by the agreements on other borrowed funds.

Analysis of other borrowed funds by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 28.

19 Subordinated debt

In Ukrainian Hryvnias and in thousands	Currency	Maturity	Nominal rate, %	31 December 2019	31 December 2018
Subordinated debt received from a related party-individual	USD	6 September 2024	6	49,162	57,814
Subordinated debt received from a related party-individual	USD	30 November 2025	8	43,293	50,014
Subordinated debt received from a related party-legal entity	UAH	25 November 2019	16.5	-	35,497
Total subordinated debt				**92,455**	**143,325**

In September 2018, a new agreement was concluded on attracting the subordinated debt from a related party-individual denominated in USD in the amount of USD 2,000 thousand for the period to September 2024. The Bank's management estimated the interest rate on such foreign currency denominated contracts to amount to 5.3%. Loss on attracting funds in USD was recognized in equity in the amount of UAH 2,370 thousand. In 2019, the Bank did not attract new borrowings on the conditions of the subordinated debt.

20 Reconciliation of liabilities arising from financing activities

The table below details main changes in the Bank's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities for the year ended 31 December 2019.

				Non-cash changes			
	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Interest payments	Interest expense	Foreign exchange differences	Other non-cash changes	Balance as at the end of the period
Other borrowed funds	213,479	202,372	(25,431)	28,964	(55,045)	(8,485)	355,854
Subordinated debt	143,325	(35,000)	(12,898)	12,616	(15,588)	-	92,455
Lease liabilities	69,208	(34,136)	(11,484)	11,484	-	38,680	73,752
Total reconciliation of liabilities arising from financing activities	**426,012**	**133,236**	**(49,813)**	**53,064**	**(70,633)**	**30,195**	**522,061**

The following table summarizes liabilities arising from financing activities in respect of which cash flows were, or future cash flows will be, classified in the Bank's statement of cash flows as cash flows from financing activities for the year ended 31 December 2018.

				Non-cash changes		
	Balance as at the beginning of the period	Proceeds/ (repayments) from cash flows	Interest payments	Interest expense	Foreign exchange differences	Balance as at the end of the period
Other borrowed funds	229,737	(13,871)	(16,249)	16,930	(3,068)	213,479
Subordinated debt	85,658	56,823	(10,954)	11,634	164	143,325
Total reconciliation of liabilities arising from financing activities	**315,395**	**42,952**	**(27,203)**	**28,564**	**(2,904)**	**356,804**

21 Share capital

In Ukrainian Hryvnias and in thousands, other than the number of shares	Number of issued shares	Amount
As at 1 January 2018	**3,073,500**	**445,043**
Increase in share capital at the cost of retained earnings	-	78,067
As at 31 December 2018	**3,073,500**	**523,110**
Increase in share capital at the cost of retained earnings	-	115,994
As at 31 December 2019	**3,073,500**	**639,104**

All shares are ordinary shares, with the nominal value of UAH 207.94 per share (2018: UAH 170.20 per share). Each ordinary share carries one vote. All shares are authorized, issued, and fully paid, with equal voting, dividend, and capital repayment rights.

21 Share capital (continued)

In accordance with the Ukrainian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of the financial information prepared in accordance with the requirements of the National Bank of Ukraine.

No dividends on ordinary shares of the Bank were declared during 2019 and 2018.

The statutory reserve fund in equity accounted for in accordance with the Law of Ukraine "On Banks and Banking" amounted to UAH 23,218 thousand as at 31 December 2019 (31 December 2018: UAH 17,108 thousand). Charges to the reserve fund are made from the net profit for the year retained by the Bank after paying taxes and other mandatory payments and should be at least 5% of the Bank's net profits. The reserve fund may only be used to cover losses of the Bank for the reporting year in accordance with the decision of the Bank's Supervisory Board and in line with the procedure established by the General Shareholders' Meeting.

In April 2019, the sole shareholder decided to increase the Bank's share capital by UAH 115,994 thousand to the total amount of UAH 639,104 thousand and, also, approved profits for 2018 in the amount of UAH 122,104 thousand and their distribution as follows:

- UAH 6,110 thousand distributable to the Bank's reserve fund;
- UAH 115,994 thousand distributable to increase the statutory capital.

The Bank's share capital was increased through the increase in nominal value of the Bank's shares by UAH 37.74 to the total value of UAH 207.94 per share. In June 2019, the new version of the Bank's Charter was state registered. On 25 July 2019, the National Commission for Securities and Stock Market registered the issue of the Bank's shares with the nominal value of UAH 207.94 per share for the total amount of UAH 639,104 thousand.

22 Interest income and expense

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Interest income		
Interest income on financial assets measured at amortized cost:		
Loans and advances to legal entities	956,849	859,139
Investment securities measured at amortized cost	153,887	105,030
Due from other banks	15,767	17,816
Loans and advances to individuals	16,634	8,030
Interest income on financial assets measured at fair value through other comprehensive income:		
Investment securities measured at fair value through other comprehensive income	17,280	2,748
Total interest income	**1,160,417**	**992,763**
Interest expense		
Interest expense on financial liabilities measured at amortized cost		
Current/settlement accounts	280,919	190,606
Term deposits of individuals	99,235	100,051
Due to other banks	43,169	63,114
Other borrowed funds	28,964	16,930
Term deposits of legal entities	28,532	38,454
Subordinated debt	12,616	11,634
Interest expense on lease liabilities	11,484	-
Total interest expense	**504,919**	**420,789**
Net interest income	**655,498**	**571,974**

23 Services and commission income and expense

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Services and commission income		
- Cash and settlement transactions	396,893	288,499
- Purchase and sale of foreign currency	89,910	75,035
- Guarantees issued	18,801	17,700
- Lending transactions	15,893	13,062
- Use of safe deposits	8,274	6,194
- Cash collection	6,003	5,176
- Other	1,603	1,904
Total services and commission income	**537,377**	**407,570**
Services and commission expense		
- Cash and settlement transactions	186,094	130,832
- Payment processing	18,105	17,167
- Other	532	922
Total services and commission expense	**204,731**	**148,921**
Net services and commission income	**332,646**	**258,649**

24 Other operating income

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Income from MasterCard on implementation of a joint marketing program	18,225	20,910
Other	1,213	828
Total other operating income	**19,438**	**21,738**

25 Staff related costs

For the year ended 31 December 2019, staff related costs amounted to UAH 406,834 thousand (2018: UAH 326,737 thousand).

Included in staff related costs for 2019 was unified social contribution in the amount of UAH 49,175 thousand (2018: UAH 37,068 thousand).

26 Administrative and other operating expenses

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Royalty	99,388	66,205
Maintenance of premises and equipment	85,256	64,012
Communication, mail, and information systems	55,477	43,028
Contributions to Individual Deposit Guarantee Fund	19,970	19,072
Advertising and marketing services	18,184	22,169
Professional services	18,135	15,677
Security services	9,360	6,947
Business trips	6,976	6,273
Utilities	6,010	4,994
Other taxes and mandatory payments, other than income taxes	4,186	4,288
Operating leases	4,036	57,302
Other	25,421	19,626
Total administrative and operating expenses	**352,399**	**329,593**

Included in royalty were monthly payments for using the trade mark "Vlasnyi Rakhunok" to a related party – an entity under control of ultimate shareholders in the amount of UAH 95,931 thousand (2018: UAH 62,956 thousand).

27 Income taxes

Components of income tax expense

Income tax expense recorded in profit or loss for the year comprised the following components:

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Current tax	37,463	24,614
Deferred tax	26	(1,171)
Income tax expense for the year	**37,489**	**23,443**

Reconciliation between the tax expense and profit or loss multiplied by the applicable tax rate

Income tax rate applicable to the Bank's income for 2019 was 18% (2018: 18%). Reconciliation between the expected and actual tax charges is provided below.

In Ukrainian Hryvnias and in thousands	For 12 months of 2019	For 12 months of 2018
Profit before tax	**202,577**	**145,547**
Theoretical tax charges at the statutory tax rate	36,464	26,198
Tax effect of items which are not deductible or taxable:		
- Non-deductible expenses	183	(317)
- Expenses not recognized in financial accounting	(19)	-
- Tax effect of the Tax Code transition provisions*	-	(2,438)
- Other permanent differences	861	-
Income tax expense for the year	**37,489**	**23,443**

* In 2018, the Verkhovna Rada adopted amendments to the Tax Code of Ukraine. Tax effect of the Tax Code transition provisions related to the following: a positive difference (reported in Quarter 1 of 2018 via accounts of the Bank's equity) between the adjusted amount of provisions for assets (including by groups of assets) calculated as at the beginning of 2018 in accordance with the requirements of IFRS 9 and the amount of provisions created as a result of asset impairment under the requirements of IAS 39 decreases a gain or loss before tax by UAH 13,544 thousand, with the tax effect amounting to UAH 2,438 thousand.

In 2019, changes in the tax legislation did not result in additional differences on income taxes.

Deferred taxes analyzed by type of temporary differences

Differences between IFRS and statutory tax regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Tax effect of movements in those temporary differences is detailed below, and is recorded at the rate of 18% (2018: 18%).

In Ukrainian Hryvnias and in thousands	1 January 2019	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2019
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	4,750	(7)	-	4,743
Expenses accrued	23	(19)	-	4
Investment securities	-	-	(2,253)	(2,253)
Net deferred tax assets/(liabilities)	**4,773**	**(26)**	**(2,253)**	**2,494**
Deferred tax assets recognized	4,773	(26)	-	4,747
Deferred tax liabilities recognized	-	-	(2,253)	(2,253)
Net deferred tax assets/(liabilities)	**4,773**	**(26)**	**(2,253)**	**2,494**

27 Income taxes (continued)

Tax effect of movements in temporary differences during the year ended 31 December 2018 is detailed below:

In Ukrainian Hryvnias and in thousands	1 January 2018	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2018
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	3,534	1,216	-	4,750
Expenses accrued	68	(45)	-	23
Investment securities	(31)	-	31	-
Net deferred tax assets/(liabilities)	**3,571**	**1,171**	**31**	**4,773**
Deferred tax assets recognized	3,602	1,171	-	4,773
Deferred tax liabilities recognized	(31)	-	31	-
Net deferred tax assets/(liabilities)	**3,571**	**1,171**	**31**	**4,773**

28 Financial risk management

The risk management function within the Bank is described in respect of financial risks, operating risks, and compliance risks. Financial risk comprises market risk (including foreign currency risk, interest rate risk, and other price risks), credit risk, and liquidity risk. Primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within those limits.

Risks are managed in an integrated manner and evaluated in terms of the policy of the Bank, which is reviewed and approved by the Management Board on an annual basis. The operating and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize those risks.

The risk management functions are divided among the Supervisory Board, the Management Board, Assets and Liabilities Management Committee ("ALCO"), Credit Committee (for corporate and retail business and interbank operations), and Tariff Committee.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those which are outside of the scope of the authority of the Management Board and other governing bodies (ALCO, Tariff and Credit Committees).

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its power with respect to overall asset, liability, and risk management to ALCO, Credit Committee, and Tariff Committee.

ALCO coordinates work of all divisions of the Bank with the aim of implementing asset and liability management strategies, optimizing asset and liability structure, utilizing effectively and efficiently the Bank's credit resources, minimizing risks and achieving a sufficient profitability level. ALCO manages foreign currency, interest rate, securities portfolio, and loan portfolio and liquidity risks.

Credit Committees make and approve decisions on lending transactions within their respective authority, as well as on other credit-related issues relating to corporate and retail customers and regarding setting up limits for parties operating in interbank market (foreign exchange and money market). Credit Committees also make decisions on allowances for possible losses on the Bank's active operations.

In the event the amount of lending operation or the total amount of the exposure of a borrower (or a group of borrowers), taking into account also the credit related commitments of the Bank in respect of this borrower (a group of borrowers) and also the transactions on assigning/acquiring claims on loans, exceeds the level of 10% of the Bank's regulatory capital, a decision regarding the transaction is subject to approval by the Management Board and the Supervisory Board.

Decisions to issue loans, guarantees, or sureties to related parties (other than banks) in the amount exceeding 1% of the regulatory capital (to individuals) or 3% of the regulatory capital (to legal entities) are made by the Management Board by 2/3 of votes in secret ballot voting in the absence of the interested party, with the quorum being at least half of the Management Board members.

28 Financial risk management (continued)

Tariff Committee of the Bank acts with the aim of providing additional measures for risk management and optimization of the tariff policy regarding the Bank's products and services provided to the Bank's customers. Tariff Committee, within its area of responsibilities, performs monthly analysis of the ratios related to service costs and competitiveness of the Bank's tariffs in the market, and also is responsible for operating income policies.

During 2019, no changes occurred in risk management policies.

Credit risk. Credit risk represents the Bank's exposure to financial losses as a result of failure by a borrower or counterparty to fulfill its obligations. Credit risk exposure arises mainly from loans and advances granted and investment securities. For risk management reporting purposes, the Bank considers and consolidates all credit risk elements (such as a risk of failure of certain borrowers and counterparties to perform their obligations, as well as risks inherent to certain countries and industries).

The Bank believes that its maximum credit risk exposure on financial assets is equal to the carrying value of those financial assets.

Credit risk management system in the Bank ensures for timely and adequate identifying, measuring, monitoring, reporting, controlling, and mitigating credit risk on both individual and collective bases.

In granting and supporting off-balance sheet loan commitments (obligations on unused loans and letters of credit) and guarantees, the Bank uses the same procedures for their considering, approving, and maintaining as for the loans granted.

A process for credit risk management is established in the following regulations of the Bank: the Bank's Risk Management Strategies, the Bank's Credit Risk Management Policies, as well as methodologies and regulations determining the procedure for assessing a degree of credit risk of financial instruments and expected credit losses.

Key principles applied in the process of credit risk management include:

- Assessing the Bank's counterparty's financial position at the stage of considering the issue on taking a loan decision;
- Assessing the Bank's borrower's financial position during the period of lending;
- Assessing terms and conditions of a lending operation, including a collateral;
- Estimating and setting lending limits for borrowers/groups of the Bank's related counterparties;
- Accrediting independent appraisers of collateralized properties of the Bank's borrowers;
- Monitoring on a regular basis the availability and condition of collateral items;
- Assessing the Bank's loan portfolio risks;
- Maintaining regular management reporting.

A process for credit risk management in the Bank consists of the following stages:

- Identifying risks – determining risk sources;
- Assessing risks – determining and assessing the extent of risks identified;
- Controlling risks – setting limits to the extent of acceptable risks;
- Monitoring risks – a process of consistent tracking of risk sources.

The Bank manages its credit risk by establishing limits in relation to individual borrowers or groups of borrowers, which are recommended by Risk Management Division and approved by relevant Credit Committee as a part of the loan portfolio risk management system, and by complying with the exposure limits set by the NBU.

The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements.

A decision on active operations with large corporate customers is made by the Bank's Credit Committee. In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial positions as reflected in their financial statements, their credit history and the amount of risk involved in lending to a particular borrower.

28 Financial risk management (continued)

In evaluating risks associated with a particular borrower-legal entity or individual entrepreneur obtaining a loan for conducting business activities, the Bank takes into account the borrower's financial position, its solvency and payment abilities, market analysis, risks related to the industry in which the borrower operates, and market positions of the borrower's business, as well as factors such as the quality of its management, its geographic location, concentration of suppliers/customers, debt load, the liquidity of the proposed collateral, and whether it is sufficient in view of the credit risk.

The Bank assesses credit risk concentrations by portfolios of active operations taken as a whole and by individual components. The Bank's Management Board has approved limits on active operations by industries and a range of loan products. As at 31 December 2019, all loan transactions were performed within the limits set.

Measuring expected credit losses on financial assets. Assessment of credit risk for risk management purposes is comprehensive and requires using a certain model, since the exposure of credit risk changes depending on market condition developments, estimated cash flows, and time. The Bank assesses credit risk by using such indicators as probability of default (PD), exposure at default (EAD), and loss given default (LGD). In accordance with IFRS 9 "Financial Instruments" requirements, the Bank creates allowances for expected credit losses.

A model for assessing expected credit losses is applied to the following financial instruments that are not measured at fair value through profit or loss:

- Cash and cash equivalents;
- Balances with the National Bank of Ukraine;
- Due from other banks;
- Loans and advances to customers;
- Investment securities measured at fair value through other comprehensive income;
- Investment securities measured at amortized cost;
- Other financial assets;
- Loan and financial guarantee commitments.

The general impairment model has two approaches based on which expected credit losses are measured:

- Lifetime expected credit losses are the expected credit losses that result from a significant increase in credit risk under a financial instrument or all possible default events over the expected life of a financial instrument; and
- 12-month expected credit losses are the portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, in particular:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition and default events or have low credit risk at the reporting date. For these assets, 12-month expected credit losses are recognized;
- Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition and no default event has occurred. For these assets, lifetime ECLs are recognized;
- Stage 3 includes financial assets in respect of which a default event has occurred at the reporting date. For these assets, lifetime ECLs are recognized and interest revenue is calculated on the net carrying amount (net of loss allowance for expected credit losses). Those assets are considered to be credit impaired.

The 'three-stage' model does not apply to purchased or originated credit-impaired assets ("POCI"). Purchased or originated credit-impaired financial assets are those that, at the date of initial recognition, are credit-impaired. Expected credit losses for POCI assets are assessed on an individual basis. Purchased or originated credit-impaired assets are initially recognized at fair value. Lifetime expected credit losses for such financial assets are included in expected cash flows in the course of calculating the effective interest rate at initial recognition. The effective interest rate for the purpose of interest recognition during the asset's life is the effective interest rate adjusted for credit risk.

28 Financial risk management (continued)

Expected credit losses on securities (including DGLBs) are measured within the general impairment model with reference to credit risk parameters.

In assessing whether a significant increase in credit risk has occurred since initial recognition, the Bank considers both quantitative and qualitative indicators. Qualitative indicators are determined separately depending on the type of financial assets (corporate, retail, interbank loans, securities, financial accounts receivable). One of the qualitative criteria performs a function of 'backstop' indicator (number of days past due). The Bank uses a rebuttable presumption that a credit risk on the financial asset has increased significantly since initial recognition if the period of delays in contractual payments is in excess of 30 days.

The Bank determines the availability of a significant increase in credit risk by individual loan agreements/tranches. Specifically, the Bank uses indicators (attributes) in respect of both customers taken as a whole and their assets in particular. As indicators (attributes) of a significant increase in credit risk, the Bank uses changes in indicators at the reporting date in respect of individual loan agreements/tranches compared to the date of initial recognition. The Bank uses the following indicators (attributes) in determining the availability of a significant increase in credit risk and including a financial instrument to Stage 2:

- For counterpart banks:
  - Amounts past due for more than 30 days;
  - Decreased external rating;
  - Available facts on the failure to meet the NBU's ratios (not applicable when the NBU's permits or remediation plans agreed with the NBU are available);
- For counterpart individuals:
  - Amounts past due for more than 30 days;
  - Delays in loan (interest) repayment/unauthorized overdrafts during recent 6 months;
  - Blocked current accounts;
- For counterpart legal entities:
  - Amounts past due for more than 30 days;
  - Significant increase in the ratio of debt to EBITDA;
  - Available information on legal claims of third parties to customers, management, or properties;
  - Blocked current accounts;
  - Violated significant terms and conditions of loan agreements (covenants);
  - Negative values of equity for 3 successive years;
  - Negative credit history;
  - Deteriorated Class by 3 and more positions, with the transfer to not lower than Class 5;
  - Significant decrease in monthly volumes on current accounts;
  - Expert judgment;
- For counterpart securities issuers:
  - Amounts past due on payments for more than 30 days;
  - Decreased external rating.

The Bank uses one or a combination of indicators, together with own judgment, in determining the availability of a significant increase in credit risk depending on the available information, peculiarities of borrowers, their assets, etc.

28 Financial risk management (continued)

The Bank considers the following as constituting an event of default for a financial asset or a group of financial assets (including a financial instrument to Stage 3):

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as a default or past due event regarding repayment of a principal or interest for more than 90 days. It should be noted that certain delays in debt repayment may not evidence of impairment. A decision on whether the asset has impairment indicators should be taken on the basis of additional information;
- Negative restructuring, i.e. granting benefits to a borrower due to economic or legal reasons related to the borrower's financial difficulties, which the Bank would not otherwise consider. Those benefits may be in the form of any lightened lending terms, e.g., loan extension, delays in loan repayments, interest capitalization, reduced original interest rate to the lower-than-market level, repossession of collateral or other assets as a partial repayment of the loan;
- The loss of an active market by the borrower;
- The failure in prerequisites for the credited project to be realized;
- Impairment of the collateral when the loan repayment is directly dependable on the collateral value;
- A high probability of the borrower to announce its bankruptcy or financial reorganization;
- Observable data about the decreased cash flows from the group (negative changes in the status of borrowers' repayments in the group or impact of economic conditions on fulfillment of obligations);
- Write off of one or several assets of the counterparty at the cost of an allowance.

The Bank uses both individual and collective assessments. Information is collected and analyzed individually on a separate financial instrument if it is material. In the event the application of an individual assessment is not appropriate, the Bank uses a collective assessment for a group or subgroup of financial instruments. The Bank allocates instruments by segments on the basis of similar credit risk characteristics.

As inputs for calculating expected credit losses, the Bank uses internal historical information in respect of defaults, recoveries received at default, expectations as to lives of financial instruments, periods of collateral sales, etc.

Calculation of allowance for expected credit losses on losses and advances to customers measured on an individual basis.

The Bank assesses on an individual basis loans to customers in respect of which indicators of significant increase in credit risk have been identified at the reporting date and which, by the total carrying value, are considered to be material. Loans to legal entities in respect of which default indicators have been identified (included to Stage 3) are mandatorily measured on an individual basis. The Bank may assess the remaining assets both on an individual basis based on its own judgment and on a collective basis by uniting them in groups of loans with similar credit risk parameters. The estimation of expected credit losses by each loan measured on an individual basis is performed based on discounted cash flows under several scenarios weighted for the probability of each scenario. The Bank considers several scenarios of repaying funds by a borrower under each individual financial asset and takes into account each of them even when a repayment of debt under the specific scenario is considered to be remote. The Bank considers the following standard scenarios for the recovery of loans:

- Independent repayment of loans in accordance with the current schedule;
- Independent repayment of loans at the cost of debt restructuring;
- Sale of the borrower's loans;
- Repayment of the borrower's loans at the cost of sale of a collateral under this loan;
- Write-off of the borrower's loans through creating allowances for this debt in full amounts.

28 Financial risk management (continued)

In addition to the above scenarios, the Bank may consider customized scenarios.

In the course of analyzing future cash flows, the Bank considers all information available at the date of calculating the allowance that should be based on reasonable assumptions and forecasts that should be properly documented (substantiation of the expected cash flows, availability of the factors affecting the forecast, assumptions of the Bank, possible scenarios). The Bank determines a probability for exercising each scenario under the financial instruments measured on an individual basis, with reference to the available information about a borrower, current and forward-looking macroeconomic conditions, as well as the Bank's experience based on judgments and reasonable assumptions. The Bank uses all available and supportable information received without excessive efforts that may have an impact on the probability of one or several scenarios. Probabilities of scenarios are determined by applying expert judgments of the Bank's management or statistically, in the event a historical range of data is available.

The estimation of allowances for non-cancellable off-balance sheet liabilities and guarantees measured on an individual basis is performed on the same principles as for on-balance sheet financial instruments. The only significant difference is the use of credit conversion factor (CCF) in determining gross carrying value at risk.

Calculation of allowance for expected credit losses on losses and advances to customers measured on a collective basis.

The Bank unites the financial instruments measured at the reporting date on an individual basis into groups of financial assets with similar credit risk characteristics (e.g., based on type of a borrower, period of a delay, overdue period, currency of the asset, internal classification of loans that may consider loan term, industry, designated use, geographical location of the borrower, type of collateral, and other factors) and assesses the expected credit losses on a collective (portfolio) basis. The key inputs used for measuring ECLs are:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

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, and assessed using rating tools tailored to the various categories of counterparties and exposures. 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 current conditions, adjusted to take into account estimates of future conditions that will impact PD (the Bank adjusts the determined value of probability of default according to the projected macroeconomic scenario).

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. LGD models for secured assets consider collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and time of recovery. LGD models for unsecured assets consider historical data about time of recovery and recovery rates.

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.

Incorporation of forward-looking information in respect macroeconomic indicators.

Expected credit losses are calculated with reference to expectations regarding changes in a range of macroeconomic indicators. Indicators are selected and considered in models on the basis of the historical information analyzed in respect of the impact of changes on the level of credit risk for individual portfolios by customer segments and product types.

A projection of macroeconomic indicators has been developed by the Bank for the horizon of forecast of three years using three scenarios: baseline, optimistic, and pessimistic. In modelling the projection, the Bank has used both mathematical methods and assumptions and published data about future macroeconomic factors prepared by the National Bank of Ukraine, the Ministry of Economic Development and Trade, and the Ministry of Finance of Ukraine, and international financial institutions.

28 Financial risk management (continued)

The tables below analyze information on significant changes in the gross carrying value of loans and advances to customers during the period, as well as movements in allowance for expected credit losses during 2019 and 2018. Movements in credit losses on due from other banks, investment securities measured at amortized cost, investment securities measured at fair value through other comprehensive income, other financial assets, guarantees and other loan commitments are insignificant for the purpose of these financial statements.

Loans and advances to customers measured at amortized cost – changes in gross carrying value by Stages:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2019	**5,211,230**	**1,182,281**	**347,341**	**80,622**
New loans to customers or purchased loans	4,717,492	-	-	-
Transfer to Stage 1	326,687	(326,687)	-	-
Transfer to Stage 2	(1,030,648)	1,030,648	-	-
Transfer to Stage 3	-	(30,415)	30,415	-
Loans derecognized during the reporting period	(3,183,249)	(508,688)	(130,241)	(28,919)
Written off and sold during the reporting period	-	-	(9,403)	-
Changes due to modification that has not resulted in de-recognition during the reporting period	(12,263)	(2,056)	(13,901)	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(566,996)	(253,761)	(13,756)	(51,416)
31 December 2019	**5,462,253**	**1,091,322**	**210,455**	**287**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2018	**4,848,325**	**281,874**	**665,880**	**-**
New loans to customers or purchased loans	4,460,430	-	-	80,622
Transfer to Stage 1	14,171	(14,171)	-	-
Transfer to Stage 2	(1,053,229)	1,314,996	(261,767)	-
Transfer to Stage 3	(34,721)	(24,642)	59,363	-
Loans derecognized during the reporting period	(2,779,908)	,(229,509)	(78,628)	-
Written off during the reporting period	-	-	(34,721)	-
Changes due to modification that has not resulted in de-recognition during the reporting period	(17,061)	(7,196)	(3,813)	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(226,777)	(139,071)	1,027	-
31 December 2018	**5,211,230**	**1,182,281**	**347,341**	**80,622**

28 Financial risk management (continued)

Loans and advances to customers measured at amortized cost – movements in allowance for expected credit losses by Stages:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2019	**17,767**	**72,484**	**168,608**	**(4,399)**
New loans to customers or purchased loans	32,654	-	-	-
Transfer to Stage 1	4,746	(4,746)	-	-
Transfer to Stage 2	(29,299)	29,299	-	-
Transfer to Stage 3	-	(2,735)	2,735	-
Loans derecognized during the reporting period	(8,899)	(6,312)	(83,017)	366
Written off and sold during the reporting period	-	-	(9,403)	-
Effect of changes in models or risk parameters	(3,647)	13,614	60,486	14
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(6,381)	(10,031)	2,549	4,010
31 December 2019	**6,941**	**91,573**	**141,958**	**(9)**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans
1 January 2018	**14,755**	**13,574**	**217,485**	**-**
New loans to customers or purchased loans	19,143	-	-	(4,339)
Transfer to Stage 1	618	(618)	-	-
Transfer to Stage 2	(7,084)	64,565	(57,481)	-
Transfer to Stage 3	-	(581)	581	-
Loans derecognized during the reporting period	(6,604)	(10,808)	(7,060)	-
Written off during the reporting period	-	-	(34,722)	-
Effect of changes in models or risk parameters	(1,510)	(1,601)	(1,140)	-
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(1,551)	7,953	50,945	-
31 December 2018	**17,767**	**72,484**	**168,608**	**(4,399)**

To disclose changes in gross carrying value of loans and advances to customers during the period, as well as movements in allowance for expected credit losses during 2019 and 2018, all changes in gross carrying value and allowance for loans recognized during the reporting period are presented in line "New Loans to Customers or Purchased Loans" irrespective of the reason for the said changes.

As at 31 December 2019, undiscounted amount on the initial impairment of originated credit-impaired loans recognized on their initial recognition and not included in allowances amounted to UAH 204 thousand (31 December 2018: UAH 24,442 thousand).

Other financial assets – changes in gross carrying value and movements in allowance for expected credit losses by Stages

There were no movements in credit risk on the financial asset by the guarantee coverage placed by the Bank in international payment systems of Visa and Master Card during the reporting period, with its gross carrying value, as at 31 December 2019, amounting to UAH 181,702 thousand (31 December 2018: UAH 190,030 thousand). This asset was included in Stage 1 (12-month expected credit losses).

Allowance for expected credit losses on the financial asset by the guarantee coverage placed by the Bank in international payment systems of Visa and Master Card during the reporting period has not changed significantly. As at 31 December 2019, the allowance amounted to UAH 70 thousand and was, correspondingly, included in Stage 1 (31 December 2018: UAH 90 thousand and, correspondingly, included in Stage 1).

28 Financial risk management (continued)

The Bank does not disclose the effect of modification on financial assets measured at amortized cost or fair value through other comprehensive income in the form of a separate table, since the modification of financial assets that took place during 2019 and 2018 did not result in the transfer of modified financial assets with lifetime expected credit losses to the category of financial assets with 12-month expected credit losses.

Concentration risk. Concentration risk is determined by the Bank as a risk of possible losses due to concentration of the risk on particular instruments, individual transactions, and sectors of economy.

Concentrations of assets and liabilities by currencies, maturities, and geographical indicators are analyzed in relevant risk management policy sections.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of those limits in the event of more significant market movements. Overall authority for market risk is vested to ALCO.

Foreign currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Management monitors the Bank's currency positions in accordance with the regulations of the NBU and internally developed methodology.

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2019.

In Ukrainian Hryvnias and in thousands	31 December 2019			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**
UAH	6,143,517	5,414,128	-	729,389
USD	3,404,441	3,676,807	259,346	(13,020)
EUR	877,278	643,941	(259,346)	(26,009)
Other	21,866	10,989	-	10,877
Total	**10,447,102**	**9,745,865**	**-**	**701,237**

The table below summarizes the Bank's exposure to foreign currency risk concentration as at 31 December 2018.

In Ukrainian Hryvnias and in thousands	31 December 2018			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**
UAH	4,745,482	4,105,269	-	640,213
USD	3,663,610	3,579,223	(74,128)	10,259
EUR	818,154	901,818	74,128	(9,536)
Other	9,394	7,265	-	2,129
Total	**9,236,640**	**8,593,575**	**-**	**643,065**

The above analysis includes only monetary financial assets and liabilities.

28 Financial risk management (continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In Ukrainian Hryvnias and in thousands	31 December 2019		31 December 2018	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 15% (2018: strengthening by 10%)	(1,953)	(1,601)	1,026	841
USD weakening by 5% (2018: weakening by 5%)	651	534	(513)	(421)
EUR strengthening by 15% (2018: strengthening by 10%)	(3,901)	(3,199)	(954)	(782)
EUR weakening by 5% (2018: weakening by 5%)	1,300	1,066	477	391
Other currency strengthening by 10% (2018: strengthening by 10%)	1,088	892	213	175
Other currency weakening by 5% (2018: weakening by 5%)	(544)	(446)	(106)	(87)

A negative amount in the table reflects a potential net reduction in the statement of profit or loss and other comprehensive income or the report of changes in equity before income taxes, while a positive amount reflects a net potential increase before income tax. The sensitivity was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

The above effect of changes in currency rates on the profit and equity relates to revaluation of open currency position only and does not take into account the potential decrease in credit quality of assets as a result of devaluation of Ukrainian Hryvnia.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event when unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

ALCO and Credit Committees are responsible for interest rate risk management, including minimum credit and maximum borrowing rates in respect of products, customer groups, and counterparties. Credit Committees are responsible for ensuring compliance with guidelines set by ALCO. At the same time, the corporate and retail business divisions recommend altering certain interest rates to ALCO subject to changes in market conditions or for internal reasons. Interest rate risk management is conducted using GAP analysis method, whereby the difference or gap between rate sensitive assets and rate sensitive liabilities is determined and analyzed.

28 Financial risk management (continued)

The table below summarizes the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets (other than cash and balances with the National Bank of Ukraine) and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 1 year	Total
31 December 2019					
Total financial assets	2,743,642	1,646,803	3,085,005	1,670,934	9,146,384
Total financial liabilities	(7,326,538)	(804,268)	(1,328,188)	(286,871)	(9,745,865)
Net interest sensitivity gap as at 31 December 2019	**(4,582,899)**	**842,535**	**1,756,817**	**1,384,063**	**(599,480)**
31 December 2018					
Total financial assets	2,005,381	1,438,471	3,350,655	1,348,943	8,143,450
Total financial liabilities	(6,113,053)	(951,022)	(1,244,957)	(284,543)	(8,593,575)
Net interest sensitivity gap as at 31 December 2018	**(4,107,672)**	**487,449**	**2,105,698**	**1,064,400**	**(450,125)**

As at the end of 2019, the Bank had the financial liabilities with floating interest rates in the form of other borrowed funds in the amount of UAH 355,854 thousand (as at the end of 2018: UAH 213,479 thousand) (See Note 17).

As at 31 December 2019, if interest rates at that date had been 100 basis points lower (2018: 100 basis points lower), with all other variables held constant, profit for the year would have been UAH 3,559 thousand (2018: UAH 2,135 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. If interest rates had been 100 basis points higher (2018: 100 basis points higher), with all other variables held constant, profit would have been UAH 3,559 thousand (2018: UAH 2,135 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Bank monitors nominal interest rates for its financial instruments. The table below summarizes weighted average nominal interest rates based on the reports reviewed by the Bank's key management personnel. The sign "-" in the table below means that the Bank does not have the respective assets or liabilities in the corresponding currency as at the reporting date:

	2019				2018			
	UAH	USD	EUR	Other curren-cies	UAH	USD	EUR	Other curren-cies
Assets								
Due from other banks:								
Correspondent accounts with other banks	0.0%	0.7%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%
Term deposits with other banks	0.0%	2.0%	0.0%	0.0%	0.0%	1.8%	0.0%	0.0%
Loans and advances to customers:								
Loans to legal entities	18.7%	7.9%	6.8%	-	18.7%	8.8%	6.8%	-
Investment securities measured at fair value through other comprehensive income	15.5%	4.6%	-	-	9.5%	-	-	-
Investment securities measured at amortized cost	13.2%	-	-	-	18.0%	7.0%	-	-
Liabilities								
Due to other banks:								
Correspondent accounts and overnight deposits of other banks	0.0%	3.1%	4.9%	0.0%	0.0%	1.9%	4.2%	0.0%
Term borrowings received	-	6.2%	4.0%	-	-	5.0%	3.5%	-
Current accounts	6.3%	1.1%	0.4%	0.0%	7.8%	0.6%	0.3%	0.0%
Deposits	12.4%	4.7%	3.0%	-	9.6%	4.8%	3.8%	-
Lease liabilities	18.8%	8.9%	10.8%	-	-	-	-	-
Other borrowed funds	-	6.5%	-	-	-	7.6%	-	-
Subordinated debt	-	7.0%	-	-	16.5%	7.0%	-	-

28 Financial risk management (continued)

Geographical risk concentration. Geographical concentration of the Bank's financial assets and liabilities as at 31 December 2019 is set out below:

In Ukrainian Hryvnias and in thousands	Ukraine	OECD countries	Other countries	Total
Financial assets				
Cash	893,484	-	-	893,484
Balances with the National Bank of Ukraine	407,234	-	-	407,234
Due from other banks	202,370	617,137	59	819,566
Loans and advances to customers	6,523,812	42	-	6,523,854
Investment securities measured at fair value through other comprehensive income	421,012	-	-	421,012
Investment securities measured at amortized cost	1,191,563	-	-	1,191,563
Other financial assets	7,083	183,270	36	190,389
Total financial assets	**9,646,558**	**800,449**	**95**	**10,447,102**
Financial liabilities				
Due to other banks	7,993	-	208,428	216,421
Current accounts	6,420,775	32,863	1,062	6,454,700
Deposits	2,368,249	131,414	451	2,500,114
Lease liabilities	73,752	-	-	73,752
Other borrowed funds	-	355,854	-	355,854
Other financial liabilities	43,346	9,130	93	52,569
Subordinated debt	92,455	-	-	92,455
Total financial liabilities	**9,006,570**	**529,261**	**210,034**	**9,745,865**
Net position on financial instruments	**639,988**	**271,188**	**(209,939)**	**701,237**

Financial assets, liabilities, and loan commitments have been allocated based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held. OECD assets and liabilities mainly include balances with counterparties in the USA, Germany, the UK, and Austria. Non-OECD concentrations mainly represent balances with counterparties in Montenegro.

Geographical concentration of the Bank's financial assets and liabilities as at 31 December 2018 is set out below:

In Ukrainian Hryvnias and in thousands	Ukraine	OECD countries	Other countries	Total
Financial assets				
Cash	687,234	-	-	687,234
Balances with the National Bank of Ukraine	405,956	-	-	405,956
Due from other banks	10,828	559,940	827	571,595
Loans and advances to customers	6,567,014	-	-	6,567,014
Investment securities measured at fair value through other comprehensive income	98	-	-	98
Investment securities measured at amortized cost	808,759	-	-	808,759
Other financial assets	15,976	180,008	-	195,984
Total financial assets	**8,495,865**	**739,948**	**827**	**9,236,640**
Financial liabilities				
Due to other banks	26,999	-	1,028,895	1,055,894
Current accounts	4,988,822	116,314	7,597	5,112,733
Deposits	1,911,722	118,742	43	2,030,507
Other borrowed funds	-	213,479	-	213,479
Other financial liabilities	37,637	-	-	37,637
Subordinated debt	143,325	-	-	143,325
Total financial liabilities	**7,108,505**	**448,535**	**1,036,535**	**8,593,575**
Net position on financial instruments	**1,387,360**	**291,413**	**(1,035,708)**	**643,065**

28 Financial risk management (continued)

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan issuing. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Assets and Liabilities Management Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. Treasury Department then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments, including deposits and contributions by shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding, and flexibility through the use of liabilities with a range of maturities. Deposits from customers and banks generally have short maturity and a large portion of them is repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk, and the Bank actively manages the risk through competitive pricing and constant monitoring of market trends.

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of Ukraine.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by Treasury Department.

The table below shows liabilities as at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rates at the end of the reporting period.

28 Financial risk management (continued)

The maturity analysis of financial liabilities as at 31 December 2019 and 2018 based on undiscounted cash flows for financial liabilities was as follows:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 12 months	Total
31 December 2019					
Due to other banks	56,783	66,962	95,305	-	219,050
Current accounts	6,454,700	-	-	-	6,454,700
Deposits	731,024	383,869	1,250,381	197,694	2,562,968
Other borrowed funds	-	16,781	51,306	396,516	464,603
Other financial liabilities	52,569	-	-	-	52,569
Lease liabilities	5,150	8,213	31,046	42,223	86,632
Subordinated debt	553	1,105	4,974	124,360	130,992
Irrevocable loan commitments	54,310	-	-	-	54,310
Financial guarantees issued	469,927	-	-	-	469,927
Avals issued	146,430	-	-	-	146,430
Total potential future payments on financial liabilities as at 31 December 2019	**7,971,446**	**476,930**	**1,433,012**	**760,793**	**10,642,181**
31 December 2018					
Due to other banks	580,617	453,325	25,043	-	1,058,985
Current accounts	5,112,733	-	-	-	5,112,733
Deposits	379,772	299,109	1,217,019	185,485	2,081,385
Other borrowed funds	-	3,626	19,412	275,484	298,522
Other financial liabilities	37,637	-	-	-	37,637
Subordinated debt	1,127	2,255	44,648	153,233	201,263
Irrevocable loan commitments	48,463	-	-	-	48,463
Financial guarantees issued	458,063	-	-	-	458,063
Avals issued	135,827	-	-	-	135,827
Total potential future payments on financial liabilities as at 31 December 2018	**6,754,239**	**758,315**	**1,306,122**	**614,202**	**9,432,878**

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement.

Current accounts and due to other banks are due on demand and have been reflected as "On Demand and Less Than 1 Month" in these schedules. However, management estimates that demand on a majority of the accounts will occur at a significantly later date.

Deposits are classified in the above analysis based on contractual maturities. According to the Ukrainian Civil Code amendments adopted during 2015, individuals have a right to withdraw their term deposits prior to maturity only in cases where it is stipulated in the contract of bank term deposit.

28 Financial risk management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarized as follows as at 31 December 2019:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 12 months	Total
Financial assets					
Cash	893,484	-	-	-	893,484
Balances with the National Bank of Ukraine	407,234	-	-	-	407,234
Due from other banks	782,986	-	36,284	296	819,566
Loans and advances to customers	757,697	1,645,432	2,885,044	1,235,681	6,523,854
Investment securities measured at fair value through other comprehensive income	3,058	1,355	163,465	253,134	421,012
Investment securities measured at amortized cost	1,191,563	-	-	-	1,191,563
Other financial assets	8,339	16	211	181,823	190,389
Total financial assets	**4,044,361**	**1,646,803**	**3,085,004**	**1,670,934**	**10,447,102**
Financial liabilities					
Due to other banks	56,514	65,886	94,021	-	216,421
Current accounts	6,454,700	-	-	-	6,454,700
Deposits	757,150	374,542	1,206,150	162,272	2,500,114
Lease liabilities	5,149	7,988	28,017	32,598	73,752
Other borrowed funds	-	11,915	33,370	310,569	355,854
Other financial liabilities	52,569	-	-	-	52,569
Subordinated debt	453	-	-	92,002	92,455
Total financial liabilities	**7,326,535**	**460,331**	**1,361,558**	**597,441**	**9,745,865**
Net liquidity gap arising from financial instruments	**(3,282,174)**	**1,186,472**	**1,723,446**	**1,073,493**	**701,237**
Cumulative liquidity gap as at 31 December 2019	**(3,282,174)**	**(2,095,702)**	**(372,256)**	**701,237**	
Loan commitments					
Irrevocable loan commitments	54,310	-	-	-	54,310
Guarantees issued	469,927	-	-	-	469,927
Avals issued	146,430	-	-	-	146,430
Cumulative liquidity gap as at 31 December 2019, including loan commitments	**(3,952,841)**	**(2,766,369)**	**(1,042,923)**	**30,570**	

The Bank has a significant cumulative liquidity gap of financial assets and liabilities up to 12 months. This liquidity gap arises from the fact that an important source of funding for the Bank as at 31 December 2019 were customer accounts and interbank deposits on demand. A significant part of current accounts is presented by accounts on demand (deposits 'on demand' and current accounts). Management believes that in spite of a substantial portion of deposits 'on demand' included in current accounts, diversification of those deposits and the past experience of the Bank indicate that those deposits provide a long-term and stable source of funding for the Bank. In addition, as at 31 December 2019, due to other banks included loans and deposits obtained from a related party (an entity under common control) in the amount of UAH 208,428 thousand that, if needed, may be extended for a respective period. In addition, as at 31 December 2019, the Bank had investment securities measured at fair value through other comprehensive income with the contractual maturity over 12 months in the amount of UAH 253,134 thousand that may be sold by the Bank in the case of need.

The Bank does not expect that commitments to extend loans, guarantees issued, and avals issued will lead to a significant cash outflows in the nearest future, since, based on the historical experience, the Bank does not anticipate that funds under issued guarantees and avals will be paid to third parties.

28 Financial risk management (continued)

The liquidity position of the Bank as at 31 December 2018 is set out below:

In Ukrainian Hryvnias and in thousands	On demand and less than 1 month	1–3 months	3–12 months	Over 12 months	Total
Financial assets					
Cash	687,234	-	-	-	687,234
Balances with the National Bank of Ukraine	405,956	-	-	-	405,956
Due from other banks	571,595	-	-	-	571,595
Loans and advances to customers	675,101	1,438,471	3,294,529	1,158,913	6,567,014
Investment securities measured at fair value through other comprehensive income	47	-	51	-	98
Investment securities measured at amortized cost	752,684	-	56,075	-	808,759
Other financial assets	6,058	-	-	189,926	195,984
Total financial assets	**3,098,675**	**1,438,471**	**3,350,655**	**1,348,839**	**9,236,640**
Financial liabilities					
Due to other banks	579,705	451,578	24,611	-	1,055,894
Current accounts	5,112,733	-	-	-	5,112,733
Deposits	381,958	285,966	1,185,340	177,243	2,030,507
Other borrowed funds	-	558	6,654	206,267	213,479
Other financial liabilities	37,637	-	-	-	37,637
Subordinated debt	1,021	-	35,006	107,298	143,325
Total financial liabilities	**6,113,054**	**738,102**	**1,251,611**	**490,808**	**8,593,575**
Net liquidity gap arising from financial instruments	**(3,014,379)**	**700,369**	**2,099,044**	**858,031**	**643,065**
Cumulative liquidity gap as at 31 December 2018	**(3,014,379)**	**(2,314,010)**	**(214,966)**	**643,065**	
Loan commitments					
Irrevocable loan commitments	48,463	-	-	-	48,463
Guarantees issued	458,063	-	-	-	458,063
Avals issued	135,827	-	-	-	135,827
Cumulative liquidity gap as at 31 December 2018, including loan commitments	**(3,656,732)**	**(2,956,363)**	**(857,319)**	**712**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. A mismatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

29 Capital management

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine and (ii) to safeguard the Bank's ability to continue as a going concern. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as at 31 December 2019 was UAH 885,666 thousand (2018: UAH 710,410 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

The Bank's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

29 Capital management (continued)

In 2019, the National Bank of Ukraine, pursuant to the NBU's Resolution # 141 dated 22 December 2017 "Provision on Assessing Stability of Banks and Banking System of Ukraine" (as subsequently amended), assessed the quality of the Bank's assets as at 1 January 2019. According to the NBU's stress-testing result, under the negative scenario, the Bank needs additional capitalization. To cover the above need in capital under the negative scenario, the Bank developed and implemented a restructuring plan agreed with the National Bank of Ukraine.

Under the current capital requirements set by the National Bank of Ukraine, banks should maintain a ratio of regulatory capital to risk weighted assets ('capital adequacy ratio') above a prescribed minimum level. As at 31 December 2019, the minimum level required by the NBU was 10% (31 December 2018: 10%). The table below demonstrates the regulatory capital based on the Bank's reports prepared under regulatory requirements of the NBU before adjustments for the year and comprises the following components:

In Ukrainian Hryvnias and in thousands	**31 December 2019**	**31 December 2018**
Core capital	641,956	530,192
Additional capital	400,287	289,014
Total regulatory capital	**1,042,243**	**819,206**

As at 31 December 2019 and 2018, the Bank complied with the statutory values of capital adequacy set by the NBU.

Compared to the previous year, there were no changes in objectives, policies, and processes of the Bank regarding capital management.

30 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in these financial statements.

Tax contingencies. The Ukrainian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax audits. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged in the current situation. As a result, significant additional taxes, penalties, and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

The Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the Bank.

Capital expenditure commitments. As at 31 December 2019, the Bank had contractual capital expenditure commitments in respect of current repairs of premises for the total amount of UAH 1,240 thousand and finalization of software for the total amount of UAH 3,324 thousand (2018: current repairs of premises for the total amount of UAH 1,107 thousand and improvement of ATMs for the total amount of UAH 540 thousand).

30 Contingencies and commitments (continued)

Loan commitments. The primary purpose of these instruments is to ensure that funds are available to a customer to satisfy its financial needs.

Outstanding loan commitments were as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019	31 December 2018
Guarantees issued	469,927	458,063
Avals issued	146,430	135,827
Irrevocable loan commitments	54,310	48,463
Less: Provision in the form of cash deposit	(38,862)	(41,167)
Total loan commitments, less provisions in the form of cash deposits	**631,805**	**601,186**

The Bank had outstanding Irrevocable loan commitments in respect of overdrafts on card accounts of individuals. All other commitments to extend loans are revocable. With respect to credit risk on commitments to extend loans, the Bank is potentially exposed to loss in the amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments, since most commitments to extend loans are contingent upon customers maintaining specific credit standards.

Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The total outstanding contractual amount of undrawn guarantees does not necessarily represent future cash requirements, as those financial instruments may expire or terminate without being funded.

Assets pledged and restricted in use. The Bank had assets pledged as collateral or otherwise restricted with the following gross carrying value:

In Ukrainian Hryvnias and in thousands	31 December 2019 Assets pledged	31 December 2018 Assets pledged
Loans and advances to customers used as a collateral under other borrowed funds (before allowance)	480,994	340,892
Guarantee cover within the payment systems of Visa and Master Card (before allowance)	181,702	190,030
Funds placed with other banks that are used as a guarantee cover	35,766	41,809
Total	**698,462**	**572,731**

Gross carrying value of the assets used as a collateral under the borrowing received from WORLDBUSINESS CAPITAL INC. (Note 17) that secure for fulfillment of obligations amounted to UAH 480,994 thousand (2018: UAH 340,892 thousand), with the actual amount of the collateral to be transferred to WORLDBUSINESS CAPITAL INC. in the event of failure to fulfill obligations as at 31 December 2019 amounting to UAH 424,774 thousand (31 December 2018: UAH 212,880 thousand).

31 Derivative financial instruments

Derivative financial instruments under foreign currency agreements entered into by the Bank mainly related to trading in over-the-stock market between professional market participants on the basis of standardized contracts. Derivative financial instruments have potentially favorable terms (i.e. are assets) or potentially unfavorable terms (i.e. are liabilities) due to fluctuations of interest rates in the market, exchange rates, or other variables related to those instruments. Total fair value of derivative financial instruments may significantly change from time to time.

Fair value of derivative financial instruments is determined at a forward exchange rate calculated using the current exchange rates in SPOT market at the date of fair value measurement; interest rates in the quoting currency and the quotation base for the relevant period by the date of a contract fulfillment year to year; the number of calendar days that remained to the contract's fulfillment; calendar base for calculating interest rates by quotation currencies and quotation bases.

As a SPOT exchange rate in transactions with derivative financial instruments on purchase and sale of foreign currencies for national currency, the Bank uses the current exchange rate of a relevant foreign currency against UAH in FOREX market at about 14.00 Kyiv time or first hours close to it applied by calculations in the same business day or the NBU's indicative. The exchange rate is expressed by UAH amount per one unit of foreign currency.

To determine a SPOT exchange rate in performing transactions with derivative financial instruments on purchase and sale of foreign currencies for another foreign currency, the Bank uses current exchange rates of one currency against another currency established by market exchange rates at about 12.00 Kyiv time in the international market (under the data of REUTERS).

Interest rates by quotation currencies and quotation bases are determined by the Bank as follows:

- For UAH, KIEBOR rate with the period depending on the number of days to a transaction fulfillment. KIEBOR (Kyiv Interbank Offered Rate) is a weighted average interest rate on interbank loans;
- For foreign currencies (USD, EUR, GBP, etc.), LIBOR rate with the period depending on the number of days to a transaction fulfillment. LIBOR (London Interbank Offered Rate) is a weighted average interest rate on interbank loans (updated on a daily basis at 13:30).

Fair value of debts under forward contracts entered into by the Bank as at 31 December 2019 and 2018 was equal to zero, since those contracts were short-term by nature.

In 2019, the Bank reported losses on derivative financial instruments in the amount of UAH 16,177 thousand (2018: losses in the amount of UAH 2,054 thousand) in the statement of profit or loss and other comprehensive income.

32 Fair value of financial instruments

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

32 Fair value of financial instruments (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

In Ukrainian Hryvnias and in thousands	31 December 2019			31 December 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Investment securities measured at fair value through other comprehensive income						
- Domestic government loan bonds	421,012	-	421,012	98	-	98
TOTAL FINANCIAL ASSETS MEASURED AT FAIR VALUE	**421,012**	**-**	**421,012**	**98**	**-**	**98**

Valuation techniques and key inputs used for determining fair values of investment securities measured at fair value through other comprehensive income are based on the use of quoted bid prices of the said securities in the active market.

(b) Non-recurring fair value measurements

The Bank had no respective balances as at the reporting date.

(c) Financial liabilities not measured at fair value but for which fair value is disclosed

Management believes that the carrying values of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

33 Related party transactions

The Bank grants loans and advances, attracts deposits, and performs other transactions with related parties in the ordinary course of business. Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise significant shareholders, members of the Supervisory Board and the Management Board, and their immediate family members.

33 Related party transactions (continued)

As at 31 December 2019, the outstanding balances with related parties were as follows:

In Ukrainian Hryvnias and in thousands	**Significant shareholders and their family members**	**Entities under control of significant shareholders**	**Key management personnel and their family members**	**Other related parties-individuals**
Loans and advances to customers				
Gross amount of loans and advances to customers in UAH	24	24,991	313	-
Provision for active operations	-	56	1	-
Right to use assets	797	-	5	-
Other financial and non-financial assets	-	266	3	-
Due to other banks				
USD-denominated	-	11,168	-	-
EUR-denominated	-	44,939	-	-
GBP-denominated	-	110	-	-
RUB-denominated	-	2	-	-
Short-term borrowings received in USD	-	68,268	-	-
Short-term borrowings received in EUR	-	17,850	-	-
Term deposits received in EUR	-	66,091	-	-
Customer accounts				
Current accounts in UAH	3,840	210,532	4,621	85
Current accounts in USD	5,498	2,505	2,178	5
Current accounts in EUR	1,136	168	389	478
Current accounts in GBP	3	-	-	1,135
Deposits in UAH	474	47,941	959	-
Deposits in USD	109,221	-	10,935	-
Deposits in EUR	265	-	-	-
Subordinated debt in USD	92,455	-	-	-
Provision for vacations	13,213	-	853	-
Lease liabilities	211	-	1	-
Other financial and non-financial liabilities	-	10,612	46	-
Irrevocable loan commitments	76	-	147	-
Guarantees issued	-	1,895	-	-

Other related parties-individuals are represented by shareholders of the entities under control of significant shareholders who may have an influence on business decisions of the Bank's shareholders.

As at 31 December 2019, collateral under the loan granted to third party included property rights on the deposit attracted from the Bank's related party for the total amount of UAH 66,055 thousand (31 December 2018: property rights under deposits attracted from the Bank's related parties in the total amount of UAH 142,714 thousand).

Income and expense items with related parties for 2019 were as follows:

In Ukrainian Hryvnias and in thousands	**Significant shareholders and their family members**	**Entities under control of significant shareholders**	**Key management personnel and their family members**	**Other related parties-individuals**
Interest income	27	13,210	126	-
Interest expense	14,548	88,917	890	513
Services and commission income	902	50,480	220	401
Services and commission expense	-	16,809	-	-
Income on modification and de-recognition of financial instruments	144	2,102	2	-
Expense on modification and de-recognition of financial instruments	31	1	2	-
Gain or loss on revaluation and foreign currency transactions	-	216	-	-
Expense on allowances for impairment of loans	14	(2)	-	-
Administrative and other operating expenses	7,919	110,850	1,367	-

33 Related party transactions (continued)

Remuneration to key management personnel (the Management Board) and the Supervisory Board for the year ended 31 December 2019 included short-term employee benefits that included salary and bonuses payable in cash amounting to UAH 129,169 thousand (2018: UAH 120,829 thousand). Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

As at 31 December 2018, the outstanding balances with related parties were as follows:

In Ukrainian Hryvnias and in thousands	**Significant shareholders and their family members**	**Entities under control of significant shareholders**	**Key management personnel and their family members**	**Other related parties-individuals**
Loans and advances to customers				
Gross amount of loans and advances to customers in UAH	102	23,995	1,517	-
Provision for active operations	-	39	3	-
Due to other banks				
USD-denominated	-	11,712	-	-
EUR-denominated	-	16,747	-	-
GBP-denominated	-	159	-	-
RUB-denominated	-	2	-	-
Short-term borrowings received in USD	-	393,426	-	-
Short-term borrowings received in EUR	-	464,044	-	-
Term deposits received in EUR	-	142,804	-	-
Customer accounts				
Current accounts in UAH	2,410	143,071	3,125	926
Current accounts in USD	1,267	5,626	2,044	226
Current accounts in EUR	435	3,845	835	844
Current accounts in GBP	-	-	-	2,262
Deposits in UAH	50	4,773	982	-
Deposits in USD	65,584	-	16,957	40,515
Deposits in EUR	12,698	-	-	317
Subordinated debt in USD	107,829	-	-	-
Subordinated debt in UAH	-	35,496	-	-
Provision for vacations	4,268	-	621	-
Other financial and non-financial assets	-	100	-	-
Other financial and non-financial liabilities	-	6,775	-	-
Irrevocable loan commitments	100	-	262	-
Guarantees issued	-	2,215	-	-
Claims on currency receipt under currency swap contracts	-	74,128	-	-
Liabilities on currency transfers under currency swap contracts	-	74,128	-	-

Income and expense items with related parties for 2018 were as follows:

In Ukrainian Hryvnias and in thousands	**Significant shareholders and their family members**	**Entities under control of significant shareholders**	**Key management personnel and their family members**	**Other related parties-individuals**
Interest income	21	10,768	204	-
Interest expense	11,437	108,379	1,242	2,070
Services and commission income	503	37,588	191	394
Services and commission expense	-	16,845	-	-
Income on modification and de-recognition of financial instruments	22	4,285	-	46
Expense on modification and de-recognition of financial instruments	31	169	2	-
Expense on allowances for impairment of loans	-	33	3	-
Administrative and other operating expenses	5,029	70,188	587	-

34 Events after the reporting period

On 11 March 2020, the World Health Organization (the "WHO") declared the outbreak of respiratory disease caused by novel coronavirus with pandemic characteristics. For the first time identified at the end of 2019 and currently known as COVID-19, the virus struck thousands of people throughout the world. In response, many countries have undertaken measures to contain the virus spread that have significantly affected global business processes and operations. In connection with a threat of virus spread in Ukraine, in March 2020, the Cabinet of Ministers of Ukraine introduced restrictive measures for the population, in particular, the national quarantines and recommended that entities and companies transfer their employees to remote work. In turn, the Bank has also introduced certain restrictions to its operations, in particular, some outlets of the Bank have temporarily suspended their work, certain restrictions have been imposed on servicing customers in the Bank's premises, and the significant number of the Bank's employees have been transferred to remote work. Beyond the above restrictions, at the date these financial statements were authorized for issue, the Bank's operations were not materially affected. The Bank's management continues monitoring the situation on an on-going basis and undertaking certain preventive measures aimed at identifying in a timely manner, mitigating, and overcoming adverse consequences in the future. In particular, the Bank has suspended lending to customers from those sectors of economy that, according to management, are going to suffer most from the spread of pandemic and actively works with the Bank's customers in respect of monitoring and identifying in a timely manner possible problems in servicing the existing loans and advances to customers for the purpose of prompt response and management of non-performing liabilities. These and other measures undertaken by management form a part of controls on liquidity management and, correspondingly, response to the current situation. Management is of the opinion that the actions undertaken to manage risks will allow responding promptly to current and future economic challenges and minimizing any possible adverse consequences of the current situation on the Bank's operations in the foreseeable future.

MANAGEMENT REPORT (REPORT ON MANAGEMENT) OF PJSC "BANK VOSTOK" FOR 2019

Nature of business

PUBLIC JOINT STOCK COMPANY "BANK VOSTOK" (hereinafter, the "Bank") was established on 23 April 2002 and registered by the National Bank of Ukraine (the "NBU") on 17 October 2002 as Closed Joint Stock Company "Agrobank". In December 2006, the Bank became a part of Home Credit Group. The Bank is a legal successor of all rights and obligations of Closed Joint Stock Company "Agrobank" and Public Joint Stock Company "Home Credit Bank".

The Bank's policies presuppose rendering a broad range of banking services that are based on quality and corporate identity of services and trust-based relationships of partnership with customers.

For the years of its operations, the Bank has successfully displayed its economic and management potential in ensuring a stable growth in financial performance, shaping a stable business reputation among customers and business partners, and strengthening a competitive ability in the market of banking services.

In its activities, the Bank adheres to the requirements of the effective legislation, ethical and moral standards and business rules, undoubtedly fulfills its obligations, and relishes its reputation and reputation of its customers and shareholders.

As at 31 December 2019, 100% of the Bank's shares were held by LLC "Vostok Capital".

Ultimate beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskyi, and Ms. L. S. Morokhovska.

In 2019, the Bank did not purchase any shares. During 2019, the Bank did not repurchase treasury shares.

The Bank's registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank's head office units are located at 1b Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine.

Business model. The Bank positions itself as an all-purpose bank providing all major types of banking transactions and rendering banking services to all customers irrespective of their sector profile. Our model is based on understanding that real live people are standing behind any client and, therefore, the Bank succeeds in building effective partnership relations. The Bank is an integral part of its customers' lives, a reliable financial advisor and supporter in all stages of their activities.

A strategic objective of the Bank's development is to create a universal, reliable, sustainable, effective, and profitable financial institution that is able to operate in compliance with generally accepted principles of banking practice and ethics, be independent of external interference, act on the basis of healthy competition and reasonable risk with the purpose of satisfying to the maximum degree the needs and expectations of customers and investors and operating actively in the banking market on the basis of equality and partnership.

Strategies of the Bank's development are based on the principles that presuppose a competitive ability, all-purposeless, reliability, innovation, professionalism, and prompt decision making.

The increased competition makes the Bank actively apply and implement various means for attracting new and retaining existing customers. It is possible to gain competitive advantages and achieve unchallenged leadership in the banking service market only through rapid adjustment to changing external environment and ability to satisfy customer needs and create new highly technological banking products that will be in demand.

The Bank's advantages include the accessibility of its services to all categories of customers and depositors. The Bank operating to retain and increase the confidence of its new and standing corporate customers on the basis of self-developed special purpose programs cooperates with representatives of small business and individual entrepreneurs. The Bank actively improves its system of banking services through implementing new forms of deposit services, extending a range of accounts with varied functioning conditions, implementing new equipment and technologies for maintaining banking transactions using various instruments (check books, credit cards, extending loans to current account holders in the form of overdrafts, etc.). This will allow satisfying better customer needs in different services and improve the quality of services.

The Bank's operations are geographically based on the regional network consisting, as at 31 December 2019, of 40 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumska regions. A special attention in the Bank's activities is given to the quality of services to customers that are based on decades of experience and timely implementation of innovating banking technologies.

In connection with the preventive measures related to the coronavirus disease (COVID-19) spread, in March 2020, the Bank discontinued operations of one outlet and suspended operations of eight outlets in the cities of Kyiv, Odesa, and Kharkiv. Notably, the Bank's customers were redirected to be serviced in other outlets of the Bank located in those cities. The Bank is confident that such measures are of temporary nature, and the work of outlets will be renewed after quarantine restrictions are removed.

The Bank is a participant of Individual Deposit Guarantee Fund (registration certificate # 157 dated 19 November 2012), which operates under the Law of Ukraine "On Individual Deposit Guarantee System" # 4452-VI dated 23 February 2012. Individual Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual.

To date, the Bank is actively integrated in international information and payment systems. PJSC "BANK VOSTOK" is a member of the international payment system of S.W.I.F.T. and a user of international dealing systems of REUTERS and Bloomberg, a principal member of the international payment system of Master Card and, effective from 21 August 2015, a principal member of the international payment system of VISA.

PJSC "BANK VOSTOK" is an active participant of the Ukrainian stock market and depository system, in particular:

- A client of the National Depository of Ukraine;
- A client of the Depository of the National Bank of Ukraine;
- A participant in tenders of PJSC "Stock Exchange "PFTS";
- A participant in tenders of PJSC "Ukrainian Exchange";
- A member of the Professional Association of Capital and Derivative Market Participants (the "PACDMP").

On the basis of Banking License # 204 issued on 18 October 2011 by the National Bank of Ukraine, the Bank is entitled to render the following banking services:

- Attract as deposits funds and investment metals from an unlimited range of legal entities and individuals;
- Open and maintain current (correspondent) accounts of customers, including in investment metals, and escrow accounts;
- Invest the funds and investment metals attracted as deposits, including on current accounts, on its behalf, on own terms, and at its sole risk.

In accordance with the legislation of Ukraine, the Bank provides to its customers the following financial services:

- Issue payment documents, payment cards, traveler checks and/or service them, other forms of supporting settlements;
- Ensure trust management of financial assets;
- Engage in foreign exchange operations;
- Attract financial assets with obligation of their subsequent return;
- Conduct finance leasing operations;
- Lend funds, including on financial lending terms;
- Issue guarantees and sureties;
- Transfer funds;
- Provide insurance services and cumulative pension benefit services;
- Conduct professional activities in the market of securities subject to licensing;
- Conduct factoring operations, in particular, administering financial assets on the purchases of goods in groups;
- Manage properties in the course of financing construction items and/or transacting in real estate in accordance with the Law of Ukraine "On Financial and Lending Mechanisms and Property Management in Housing Construction and Real Estate";
- Perform operations with mortgage assets to issue mortgage securities;
- Provide banking and financial services in accordance with the Law of Ukraine "On Banks and Banking".

In addition, the Bank is also entitled to perform the following activities:

- Make investments;
- Issue own securities;
- Issue, promote, and arrange lotteries;
- Store valuables or rent individual banking safes;
- Collect cash and transfer currency valuables;
- Maintain registers of holders of registered securities (other than treasury shares);
- Render consulting and information services in respect of banking and other financial services.

Also, the Bank has the following licenses on conducting the following types of activities:

License Series AE # 263292 issued by the National Commission for Securities and Stock Market of Ukraine on 10 September 2013, with a perpetual life, on conducting professional activities in the stock market – depository activities. Depository activities of a depository institution;

License Series AE # 263291 issued by the National Commission for Securities and Stock Market of Ukraine on 10 September 2013, with a perpetual life, on conducting professional activities in the stock market – depository activities. Activities on storing assets of joint investment institutions;

License Series AE # 286862 issued by the National Commission for Securities and Stock Market of Ukraine on 8 May 2014, with a perpetual life, on conducting professional activities in the stock market – trading in securities. Brokerage activities;

License Series AE # 286863 issued by the National Commission for Securities and Stock Market of Ukraine on 8 May 2014, with a perpetual life, on conducting professional activities in the stock market – trading in securities. Dealer's activities.

A major segment of the Bank's customers is medium and small business. The Bank pays a special attention in its work with corporate customers to the following industry sectors: trade (especially, retail), agriculture, and transport and shipping, as an industry component. Regional presence of the Bank in major port centers of the country allows the Bank to be a single settlement center in the industry. An important place in the Bank's strategies is given to supporting and developing businesses of customers and their interests in the market of transportation, telecommunication, and trading services.

Economic environment in which the Bank operates

Transition period in politics. In spite of uncertainty and negative expectations at the beginning of 2019 in respect of presidential and parliamentary elections, the economy of Ukraine passed through the year of 2019 steadily and without losses. However, the Government has so far failed to conclude a new agreement with the International Monetary Fund (the "IMF"), which also prevents from obtaining EUR 500 million of macro-financial aid from the European Union (the "EU") and EUR 1 billion from other institutions.

GDP. GDP is gradually growing. Growth of real GDP is expected to continue, but at a slightly lower rate.

Monetary policies. Inflation for 2019 amounted to about 4.1%, which is in line with the earlier set target value of 5±1%, and is expected to stay in the future at the same level. Thanks to the well weighted targeting policy and concerted practices of the NBU and the Cabinet of Ministers of Ukraine (the "CMU"), a discount rate has been significantly decreased.

Public debt. An attractive effective yield of domestic debt, provided stable and positive macroeconomic outlooks for Ukrainian economy are preserved, and a simplified access to the market through opening the Clearstream link will promote further demand to Domestic government loan bonds ("DGLBs") (especially UAH-denominated) from foreign investors who increased their investments 18.5 times from the beginning of the year, to UAH 117.7 billion (USD 5 billion) as at the end of 2019, and reached 14.23% of all DGLBs.

Banking sector. The banking sector is characterized by the increased profitability (financial results exceed those for the previous years) and stabilization (due to the system's rehabilitation in 2014–2016 and subsequent additional capitalization). Net profits of banks for 2019 amounted to UAH 59.6 billion, which is almost thrice higher than in 2018. Major growth drivers were consumer lending and lending to small and medium businesses. In the corporate sector, recipients of new bank loans are mainly represented by solvent entities: UAH-denominated loans to prudent companies with no defaults from the crisis onset increase by over 25% year on year. Consumer lending is dynamically growing. Higher lending activity of financial institutions is an important prerequisite for growth in the rates of economic development of Ukraine. Lending to the real sector by banking and non-banking institutions is constrained by insufficient protection of lenders' rights, as well as the issue of non-performing loans (NPL). A share of NPLs in the banking system of Ukraine still amounts to about half of total loans granted by banks and remains one of the highest in the world.

High rates of UAH devaluation against major foreign currencies observed during 2014-2015 significantly decreased in 2019. As at 31 December 2019, the official exchange rate of the national currency to USD amounted to UAH 23.6862 per USD 1 compared to UAH 27.688264 per USD 1 as at 31 December 2018 and UAH 28.067223 per USD 1 as at 31 December 2017.

In 2019, an important factor was the transfer of Ukrainian banks to application of IFRS 16 "Leases".

On 27 September 2019, the credit rating agency of Standard & Poor's upgraded the long-term sovereign credit rating of Ukraine in foreign and local currencies from "B-" to "B", as well as the rating of Ukraine under the national scale from "uaBBB" to "uaA", with a stable outlook.

However, in March 2020, one of three reputable rating agencies of the world, Fitch Ratings, downgraded the outlook for domestic banking sector due to the impact of COVID-19. Economic pressure caused by the coronavirus spread and drop in oil prices adversely affects bank loans and may lead to negative rating actions. Under Fitch Ratings, the degree of pressure on banks will depend on the depth and continuity of economic downturn, specific risks for national economy and external finance, measures of Ukrainian authorities and individual banks, etc.

On 18 December 2018, the IMF and the Government of Ukraine agreed on a new cooperation program in a 'stand-by' format for the total amount of USD 3.9 billion. On 20 December 2018, Ukraine received the first tranche in the amount of USD 1.4 billion under the new program. In December 2019, Ukraine agreed with the IMF a new three-year cooperation program of EFF, within the framework of which Ukraine may receive USD 5.5 billion.

The banking system remains weakened as a result of insufficient level of capital, low quality of assets caused by the economic situation, devaluation of currency, changes in the legislation, and other reasons. Based on the results of stress-testing, the NBU agreed with owners of the largest commercial banks plans of additional capitalization for the period of three years, however, not all banks are able to perform those programs. During the period from 2014 to 2019, more than 95 banks were recognized by the National Bank of Ukraine as insolvent due to different reasons, and the largest private bank was nationalized in December 2016.

As at the end of 2019, Ukraine had 75 operating banks. A market share of state-owned banks (including JSC CB "Privatbank") grew by 1 p.p. to 55.2%, and deposits of individuals reduced by 1.0 p.p. to 61.6%. Groups of private and foreign banks increased a share of deposits from population by 0.5 p.p. each.

A conflict in the Eastern Part of Ukraine which had commenced in spring 2014 remains unresolved. Nevertheless, there was no significant escalation of the conflict since the agreement on fire cessation had been signed in February 2015. Relationships between Ukraine and the Russian Federation remained tense.

Clearing the commercial banking system creates a significant pressure on the state budget. During the period from 2014 to 2019, Individual Deposit Guarantee Fund returned to customers of insolvent banks about UAH 89,740 million, and over UAH 150 billion was allocated for capitalization of state-owned and nationalized banks.

An ultimate resolution of political and economic situation in Ukraine and its consequences are difficult to predict, however, they may have a further negative impact on the economy of Ukraine and the Bank's business.

Besides, the following risks continue to persist for the Ukrainian economy: a failure to achieve the agreement with the IMF, reduced prices for Ukrainian export goods, continued 'trade wars', increased tension in international relations, activated Russian aggression in the East, and the anticipated global crisis at the end of 2020. Also, significant negative consequences may lead to the decreased proceeds of Ukrainian citizens working abroad or foreign investors to purchase DGLBs. A serious factor is represented by the continued reforms in economic, judicial, infrastructural, educational, medical, and other spheres designed to stimulate the economy for rapid development. Their absence will lead to stagnation or a worse result. The banking system of Ukraine is challenged by work in the conditions of the COVID-19 virus pandemic.

Regulatory authorities have implemented a range of required measures to support the banking sector activities in the period of the COVID-19 spread, in particular:

- Provide additional time for submitting and publishing financial statements and other reports;
- Apply steps for softening the requirements to banks in the period of quarantines, in particular, postpone stress-testing, implement capital buffers, cancel on-site inspections, postpone the assessment of the Bank's business model, extend the terms for implementing regulatory acts of the National Bank of Ukraine;
- Refrain from applying certain enforcement measures for violation of the requirements of the effective legislation, etc.

PJSC "Bank Vostok" is able to continue as a going concern in any conditions, even under crisis. A key competitive advantages of the Bank have been and are monitoring, analyzing, and ensuring prompt response to current movements in the market and taking timely decisions allowing to overcome crises at minimum costs. A high level of liquidity allows the Bank servicing its obligations both in UAH and foreign currencies, which has found appreciation on behalf of its customers, as well as attracting new customers. The Bank's team and management have gained successful experience in coping with several crises, including the crisis of 2008. The available strategy, in combination with prompt response, will allow the Bank overcoming the crisis and feeling itself confident in the new economic situation.

According to the Bank, the highest risk for its activities is caused by quarantine and restrictive measures affecting the economy of the country taken as a whole, including due to drop in revenues of entities caused by the decreased total demand, including due to lower income of the population.

According to our estimates, spread of the virus will have an adverse impact only on some industries that are in the risk zones and will, most of all, incur material losses, in particular: transport (passenger transportation), hotel and restaurant operations, entertainment centers, education institutions related to renting out property items, as well as related businesses.

Besides, in the structure of loan portfolio of PJSC "Bank Vostok", those industries occupy only 10%, which represents a relatively moderate risk. The Bank mostly works with the industries whose greater parts should not suffer.

The Bank currently does not observe impairment indicators in respect of assets of legal entities (the portfolio of which makes up about 99% of the total). The level of coverage of lending transactions by collateral is sufficient.

The Bank currently does not feel a significant increase in delays of planned payments from customers, which is primarily explained by the fact that the Bank mainly services customers from the industries that suffer less from the COVID-19 consequences, in particular, trade, pharmacology, food processing, industries related to sea transportation and port servicing.

The National Bank of Ukraine approved for the period of pandemic a range of reliefs in valuating assets. Correspondingly, according to the NBU's recommendations, the Bank will grant credit vacations to its customers when they approach it (deferrals in principals' repayment) and, when needed, perform short-term restructurings by using an individual approach through analyzing possibilities and development prospects for each individual counterparty, with reference to a specific situation that has been shaped. The Bank does not plan using delays in interest repayments or their capitalization (other than in exceptional cases).

The Bank's management estimates the impact of COVID-19 as insignificant which will not lead to impairment of its non-current assets, material changes in their fair values, changes in expected credit losses on financial assets, impairment of accounts receivable, etc.

Management bodies of the Bank and corporate governance

The executive body of the Bank undertaking its current management is the Bank's Management Board responsible for the effective work of the Bank in compliance with the principles and procedures established by the Bank's Charter, decisions of the General Shareholders' Meeting, and the Bank's Supervisory Board.

The Bank's Management Board has the committees created of its members for a preliminary consideration of the most important issues of the Bank's activities that are within the competencies of the Bank's Management Board and preparation of recommendations for the Bank's Management Board to take decisions:

- Credit Committee;
- Tariff Committee;
- Assets and Liabilities Management Committee;
- Information Security Committee (liquidated on 1 July 2019);
- Crisis Management Committee (liquidated on 1 July 2019);
- Operating Risk Management Committee (established effective from 1 July 2019).

Functions and authorities of standing and temporary committees, their structures, procedure for attracting other people for the work in committees, as well as other issues related to their activities are determined by Provisions on Committees approved by the Supervisory Board.

Composition of the Management Board of PJSC "BANK VOSTOK" as at 31 December 2019:

Morokhovskyi, Vadym Viktorovych – Chairman of the Management Board.
Honored Economist of Ukraine. Experience in banking sphere from 1991.

Svoboda, Hanna Olehivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1996.

Putria, Viktoriia Ivanivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1997.

Morokhovska, Liia Semenivna – Deputy Chairperson of the Management Board.
Experience in banking sphere from 1996.

Panfilova, Tetiana Heorhiivna – Deputy Chairperson of the Management Board/Finance Director.
Experience in banking sphere from 1997.

Chekeres, Halyna Viktorivna – Deputy Chairperson of the Management Board/Head of Active Operation Administering Department.
Experience in banking sphere from 1988.

Boravliova, Olena Leonidivna – Deputy Chairperson of the Management Board/Head of Central Regional Department.
Experience in banking sphere from 1993.

Rodomanov, Vadym Vitaliiovych – Deputy Chairman of the Management Board/Head of Risk Management Department.
Experience in banking sphere from 1996.

A body responsible for control over activities of the Bank's executive body, protection of rights of depositors, other lenders, and shareholders of the Bank is the Bank's Supervisory Board.

The Supervisory Board is the Bank's collegiate body responsible for determining strategic goals and corporate values of the Bank, monitoring the activities of the Bank's Management Board and state of affairs in the Bank taken as a whole, representing interests of the Bank's shareholders in the period between the General Shareholders' meetings, as well as protecting rights and economic interests of shareholders, depositors, and other lenders of the Bank, but does not participate in the current management of the Bank.

The Bank's Supervisory Board has the committees created of its members for a preliminary study and preparation for consideration by a meeting of the issues within its competencies: Audit Committee and Assignment and Remuneration Committee.

Each committee consists of three persons, two of which are independent members of the Supervisory Board.

Functions, authorities, responsibilities, and interaction of management bodies and their committees are described in the Bank's Charter and relevant Provisions that are reviewed at least on an annual basis.

The Bank's Charter contains provisions that limit the authorities of the executive body in making decisions with regards to concluding agreements based on their amounts on behalf of the Joint Stock Company.

Also, the Bank's Charter and internal regulations contain provisions on a conflict of interests, i.e. contradiction between personal interests of an executive or his/her related persons and obligation to act in the interests of the Joint Stock Company.

Composition of the Supervisory Board of PJSC "BAN VOSTOK" as at 31 December 2019:

Kostelman, Volodymyr Mykhailovych – Chairman of the Supervisory Board.
Member of Assignment and Remuneration Committee.

Hnatenko, Yurii Petrovych – Member of the Supervisory Board.

Morokhovska, Liudmyla Semenivna – Member of the Supervisory Board.

Likhota, Dmytro Serhiiovych – Member of the Supervisory Board.
Member of Audit Committee.

Kudynska, Svitlana Kostiantynivna – Member of the Supervisory Board (independent director).
Chairperson of Assignment and Remuneration Committee.
Member of Audit Committee.

Diachuk, Iryna Borysivna – Member of the Supervisory Board.

Shevchenko, Nina Vitaliivna – Member of the Supervisory Board (independent director).
Chairperson of Audit Committee.
Member of Assignment and Remuneration Committee.

Kuznietsova, Liudmyla Viktorivna – Member of the Supervisory Board (independent director).

Pursuant to the Shareholder's Decision # 6 dated 26 December 2019, Makeieva, Olena Volodymyrivna was appointed a member of the Bank's Supervisory Board (independent director) effective from 2 January 2020.

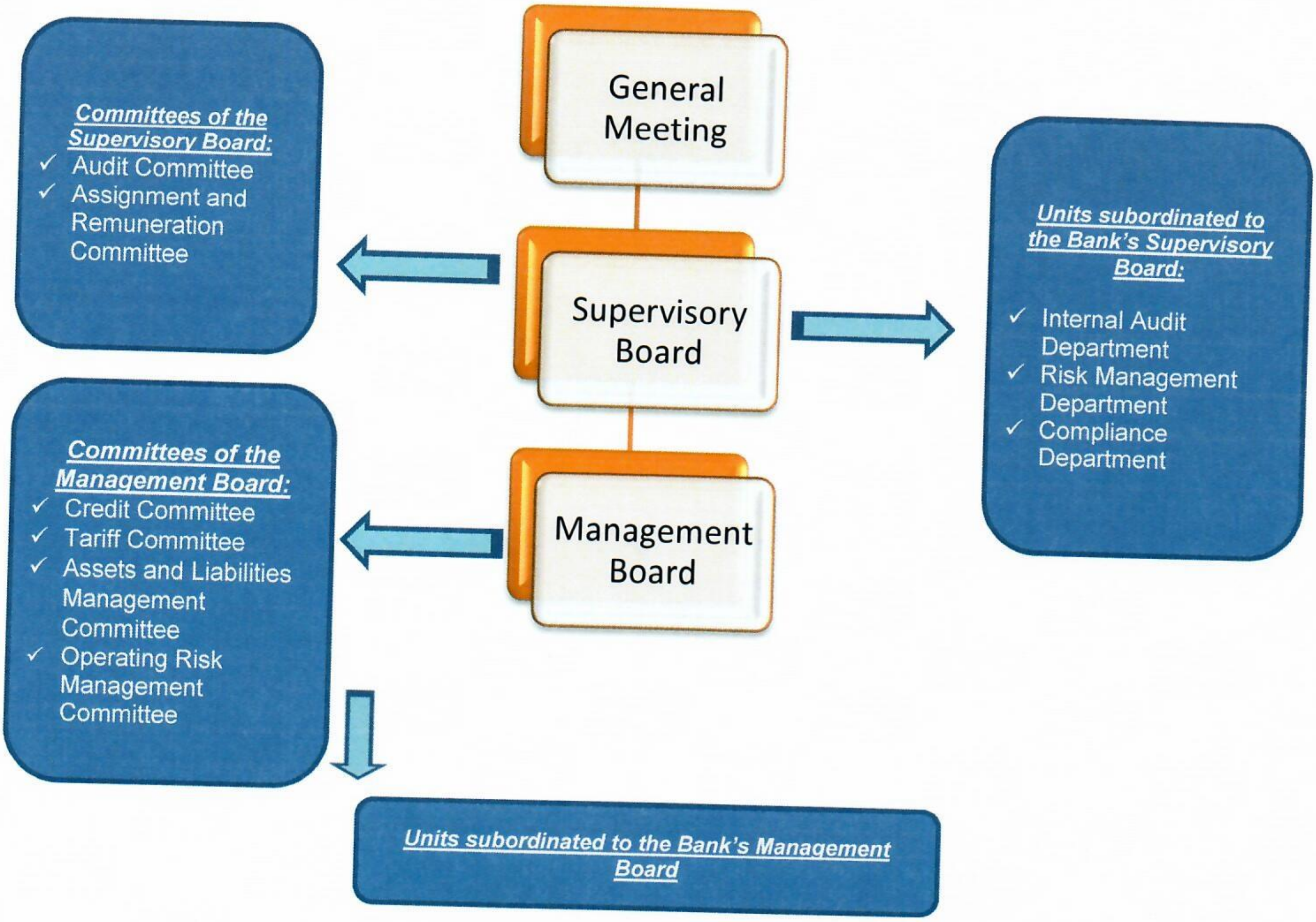
The document that defines and secures key principles and standards of the Bank's corporate governance, principles for protecting rights and interests of shareholders, depositors, and other stakeholders, tools of management and control, principles of openness and transparency in its activities is the Code of Corporate Governance of PJSC "BANK VOSTOK", as approved pursuant to the Shareholder's Decision # 3 dated 25 April 2019.

Code of Corporate Governance of PJSC "BANK VOSTOK" is placed on the Bank's site at: https://bankvostok.com.ua/public.

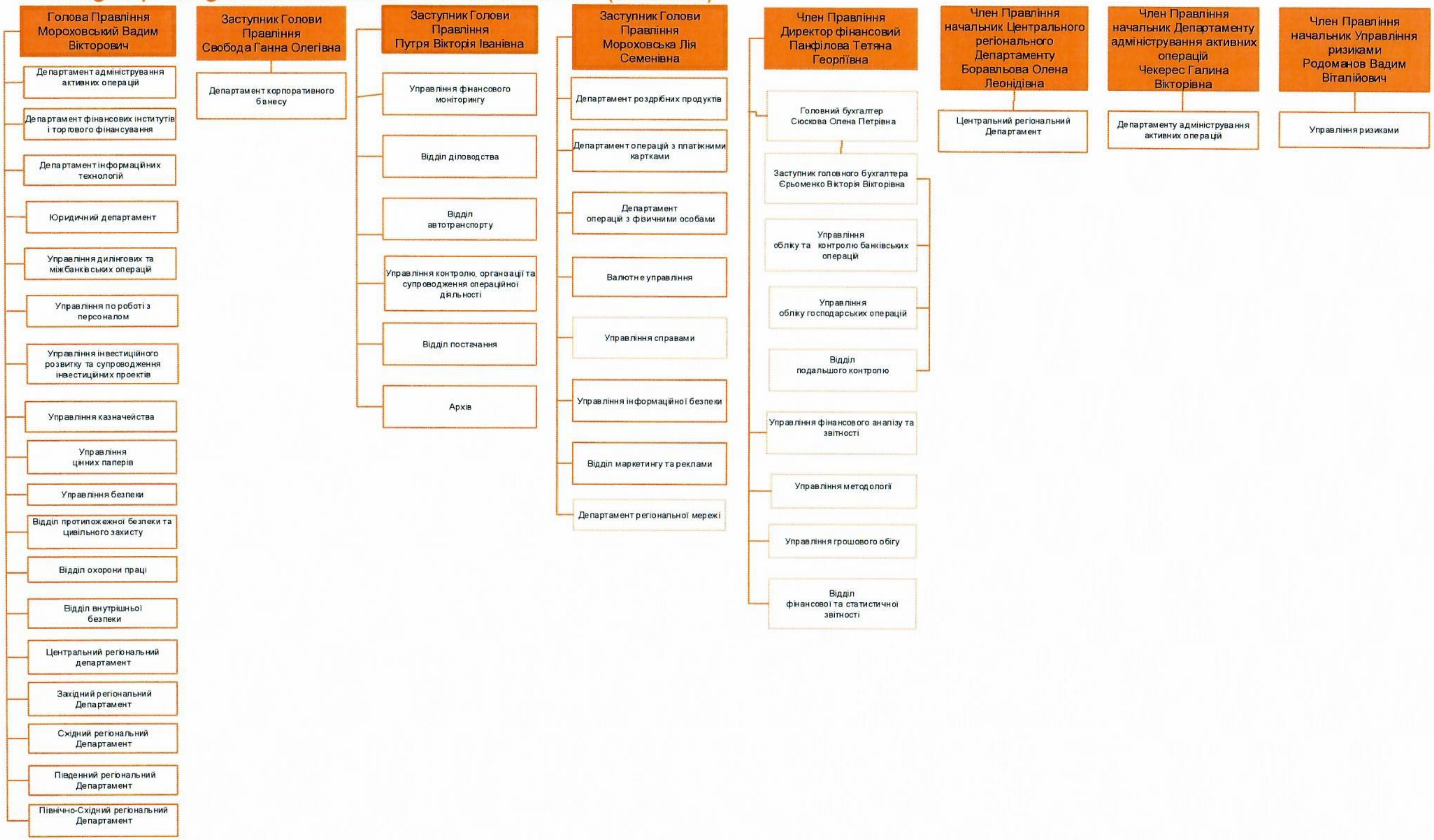
Key principles of the Bank's corporate governance include the following:

- Clear segregation of authorities among management bodies and available adequate degree of authority, responsibility, accountability, and a system of control and counterbalance;
- Effective supervision on behalf of the Supervisory Board, efficient management of the current activities by the Management Board, strict risk management, strong measures of internal control, compliance with standards;
- Protection of interests of shareholders, depositors, and other stakeholders;
- Timely disclosure of complete and reliable information about the Bank, including its financial position, economic performance, significant events, ownership structure and its management with the purpose of ensuring a possibility of weighted decision making by the shareholder and customers of the Bank.

Existing corporate governance model as at 31 December 2019



Existing corporate governance model as at 31 December 2019 (continued)



Achievements of the Bank

PJSC "BANK VOSTOK" obtained an international long-term borrowing under the support of OPIC

On 26 February 2019, the agreement was signed by Vadym Morokhovskyi, Chairperson of the Bank's Management Board, and Robert Monyak, Director of World Business Capital.

This is a unique borrowing for the country amounting to USD 8 million that has been obtained from the financing company of World Business Capital under the support of Overseas Private Investments Corporation (OPIC). The loan was granted to support small and medium business entities, including those owned by women. The borrowing was received for the period up to 2028.

PJSC "BANK VOSTOK" was acknowledged as one of the most reliable banks

PJSC "Bank Vostok" was ranked third in the contest among Ukrainian banks under the rating of financial reliability of banks organized by the Ukrainian Project of Reforms. The rating was updated on 14 April 2019.

Thanks to the rating of the Ukrainian Project of Reforms, customers may learn about financial problems encountered by banks approximately 3–6 months before their possible bankruptcy.

Victory in the Most Reliable Bank for Business nomination

International Financial Club of "Bankir" (the "Banker") and the University of Banking determined winners of the Eleventh All-Ukrainian Contest "Bank of the Year 2019". The best banking institutions in Ukraine were determined based on the surveys of Ukrainian banks, their clients, thoughts of competent experts of the National Bank of Ukraine and other banking structures.

On Mastercard Day 2019, PJSC "BANK VOSTOK" received two rewards

"Let's Make Odesa Great Again" – for the realized program of contactless fare payment in Odesa funicular and partnership program of Green Theater 2019.

QR & Masterpass solution for Silpo – for implemented settlements with the help of QR-code in Silpo application.

The Bank introduced a chatbot in Viber and Telegram

Starting from August 2019, the Bank's customers are able to communicate with the Bank via applications of Viber and Telegram.

Apple Pay becomes accessible for holders of Visa cards of PJSC "BANK VOSTOK"

Holders of Visa cards of PJSC "Bank Vostok" have received a possibility to use Apple Pay – an easy, protected, and individual payment instrument which completely substitutes the sphere of mobile payments by offering speed and convenience.

Credit rating of the Bank was upgraded to "uaAA+"

The rating agency of Credit Rating announced the upgrade of the Bank's long-term credit rating to the level of uaAA+, with a positive outlook.

Objectives of management and strategies of their achievement

Fundamentals of the Bank's ideology include loyalty to its customers, mobility and flexibility in decision making, readiness to provide any types of banking services to legal entities and individuals with a maximum comfort and customer-specific service. The Bank represents a huge family for its customers and employees, any tasks in it are fulfilled promptly and efficiently.

One of the most important strategic goals of the Bank is to ensure a qualitative and balanced loan portfolio through implementing the effective credit policies key tasks of which include the following:

- Ensure an optimum correlation of risk level to profitability of lending operations;
- Ensure a weighted and effective use of loan resources;
- Achieve an optimum balance between growth of the loan portfolio and rates for increasing its quality;
- Extend the customer base by providing credit services of high quality;
- Retain a high degree of confidence and respect of legal entities and individuals to the Bank through timely and complete fulfillment of its obligations to depositors;
- Deposit funds in high quality assets in order to protect interests of depositors and shareholders of the Bank;
- Grant loans on the terms of security, availability, maturity, repayment, and designated use;
- Diversify risks by complying with an acceptable level of concentration of loan contributions;
- Perform lending transactions in compliance with the requirements of the effective legislation of Ukraine, resolutions of the National Bank of Ukraine, and internal regulations of the Bank.

One of the key strategic goals of the Bank is to further increase the amount of its equity. For the recent three years, the Bank allocates its profits received to increase the statutory capital. The Bank is planning to increase the amount of its statutory capital at the cost of profits for 2019, first half year of 2020, and subsequently.

Internal control system

Internal control of the Bank is the process integrated in all processes of the Bank's activities and corporate governance that is aimed at achieving operating, information, and compliance goals of the Bank's operations.

Norms and requirements of functioning the Bank's internal control system are determined by the Policies of Internal Control in PJSC "BANK VOSTOK" approved by the Bank's Supervisory Board.

The Bank ensures functioning of a comprehensive, effective, and adequate internal control system ("ICS") comprising the following key components:

- Control environment;
- Risk management;
- Control activities;
- Control over information flows and communications;
- Monitoring of ICS's efficiency.

The Bank's ICS is based on the following principles: complexity, efficiency and effectiveness, adequacy, prudence, risk focus, integrity, timeliness, independence, and confidentiality and is aimed at achieving the Bank's goals, including fulfilling planned performance, ensuring effectiveness and efficiency of the Bank's operations, safeguarding the Bank's assets to ensure the efficiency of the Bank's corporate governance through functioning of a comprehensive, effective, and adequate risk management system; ensuring complete, timely, and fair preparation and submission of financial, statistical, management, and other reporting; complying the Bank's activities with the legislation of Ukraine, regulations of the NBU, and internal documents.

The Bank creates and implements the ICS that is based on segregation of duties among the Bank's units, other than functions within the sole competence of the Bank's Supervisory Board/Management Board/Committees in accordance with the provisions of the legislation of Ukraine, regulations of the NBU, and internal documents of the Bank. This segregation is based on applying three lines of defense.

Subjects of the Bank's ICS are:

The Bank's Supervisory Board, Audit Committee, and Assignment and Remuneration Committee that ensure functioning of the Bank's ICS and monitor their effectiveness.

First line of defense:

- The Bank's Management Board, collegiate bodies of the Bank's Management Board that ensure fulfilling decisions of the Bank's Supervisory Board, perform current management of ICS, determine, within their own competences, the authorities and duties in respect of ICS, ensure compliance with corporate values and control culture;
- Business and support units of the Bank that initiate, perform, or record operations, accept risks in the course of their activities, and bear responsibility for current management of those risks, undertake controls within their authorities established by the Bank's internal documents;
- Risk coordinators of business and support units determined by the Bank's internal documents that perform internal controls within the functions determined by those documents.

Second line of defense:
Risk Management Department and Compliance Department that monitor the efficiency of controls in the first line of defense within functions of independent control in the second line of defense, within their functional authorities, ensure implementation and efficiency of risk management system in accordance with the requirements of the effective legislation and internal regulations of the Bank on risk management, and ensure confidence of the Bank's leaders that controls and risk management measures set in the first line of defense have been developed and function properly;

Third line of defense:
Internal Audit Department that independently evaluates the efficiency of the first and second lines of defense and overall efficiency of ICS.

Internal controls within the Bank comprise the following:
- Control of the Bank's leaders that includes analyzing reports on performance of the Bank's units with the purpose of analyzing the compliance of achieved results with the Bank's goals set;
- Control over availability of the Bank's assets that includes limiting access to valuables (cash, documentary securities), premises of the Bank, segregating responsibilities for storing and using valuables, conducting routine stock taking, ensuring security of the Bank's premises, double control, limited access to assets, etc.;
- Control over access to information systems, including authorizing the access to computer programs and data, electronic banking systems, databases and software, which includes developing procedures and processes for granting relevant access;
- Control over access to information containing banking and commercial secrets, confidential and insider information in accordance with internal procedures and access granted;
- Control over granting permits and confirmations on performing the Bank's operations, which includes establishing a procedure of segregating authorities in the course of performing banking transactions and fulfilling other arrangements in accordance with internal procedures and access granted;
- Control on compliant reporting of all transactions of the Bank, which includes monitoring the compliance with the procedure of performing banking transactions and fulfilling other arrangements, their proper recording in accounting, financial, and statistical reporting, informing the Bank's leaders of the appropriate level about identified violations, errors, and deficiencies;
- Control on compliance with set limits and restrictions to performing banking transactions and other arrangements;
- Control on completeness, reliability, and timeliness of preparing financial, statistical, management, tax, and other reporting.

The Bank ensures control over quality of information in respect of its activities and performs internal and external communications.

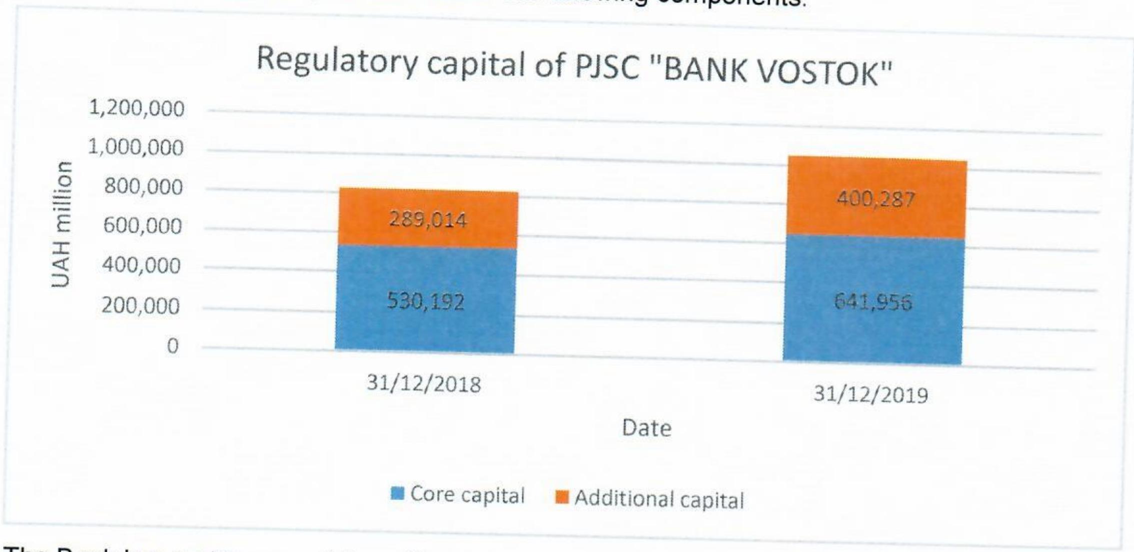
The Bank monitors the effectiveness of ICS, which includes evaluating the efficiency of ICS, determining the ability of ICS to ensure achievement of the Bank's goals, including determining a probability and assessing materiality of potential deficiencies in ICS that may adversely affect the achievement of the Bank's goals, and developing measures aimed at minimizing the negative effect with the purpose of improving ICS.

Resources, risks, and relationships

Key financial and non-financial resources

A key goal of the Bank in capital management is to ensure the sufficient volume of available capital at any time in order to realize its strategy. The Bank's requirements to capital are determined on the basis of the Bank's strategies, risk appetite and exposures at the current moment and in the future. Considering an ambition to optimize the Bank's total value, we take into account the requirements of controlling bodies, expectations of rating agencies, and interest of customers and investors, as well as sufficient profitability to shareholders. We also apply internal goals to be performed. Those goals are reconciled with our objective to be a stable bank conducting its activities with a low risk profile.

The Bank's regulatory capital consists of the following components:



The Bank has a strong capital position in terms of coverage adequacy of risk-weighted assets. This allows the Bank to continue moving on its road of development.

In 2019, the National Bank of Ukraine, pursuant to the NBU's Resolution # 141 dated 22 December 2017 "Provision on Assessing Stability of Banks and Banking System of Ukraine" (as subsequently amended), assessed the quality of the Bank's assets as at 1 January 2019.

According to the NBU's stress-testing result, under the negative scenario, the Bank needs additional capitalization, with is final amount as at 1 January 2020 equal to UAH 300 million (considering actual events that took place in the period from 1 January 2019 to 1 September 2019). To cover the above need in capital under the negative scenario, the Bank developed a restructuring program agreed with the National Bank of Ukraine. According to the said program, the Bank, inter alia, is going to direct its profits for 2019 at increasing the statutory capital, which will allow the Bank to perform its obligations to customers even in stress conditions and grow confidently.

The share capital grew by UAH 116 million to UAH 639 million in 2019, in particular, as a result of contributions to the share capital of retained earnings of prior years.

In July 2019, the Bank registered the issue of shares as a result of increasing its statutory capital through the increase in the nominal value of shares of PJSC "BANK VOSTOK" and obtained Certificate of the National Commission for Securities and Stock Market # 39/1/2019 on registration of share issue and the new nominal value of UAH 207.94 per share for the total amount of UAH 639 million.

The Bank is in compliance with adequacy requirements to core and regulatory capital.

The Bank has a strong liquid position which allows it always to meet its financial obligations. The Bank governs its own liquid position so that it would be able to absorb consequences of stress factors that are specific both to the Bank and the market (e.g., movements in trends in monetary and/or capital markets). Liquidity management supports the Bank's strategies within the framework of the risk appetite set. In financing its liquidity needs, the Bank strives to diversify its funding sources in accordance with its strategies.

In 2019, the Bank maintained its strong liquidity position that met both its internal goals and statutory requirements. The Bank calculates on a daily basis liquidity ratios in accordance with the requirements of the National Bank of Ukraine.

The Bank creates a liquidity buffer which comprises highly liquid assets intended to absorb an unexpected growth in liquidity needs, in particular:

- Cash at the end of 2019 amounted to UAH 893 million (at the end of 2018: UAH 687 million);
- Cash on correspondent account with the NBU at the end of 2019 amounted to UAH 407 million (at the end of 2018: UAH 406 million);
- Correspondent accounts with other banks at the end of 2019 amounted to UAH 406 million (at the end of 2018: UAH 532 million);
- Deposit certificates issued by the NBU and Domestic government loan bonds ("DGLBs") at the end of 2019 amounted to UAH 1,613 million (at the end of 2018: UAH 809 million).

Liquidity buffer at the end of 2019 amounted to UAH 3,320 million (at the end of 2018: UAH 2,434 million) and had a significant portion of government bonds and deposit certificates issued by the NBU. This was more than enough to go through grave stress scenarios during certain period of time.

To manage liquidity risk, the Bank uses gap analysis between assets and liabilities in accordance with expected maturities.

In managing assets and liabilities, the Bank takes into account behavioral aspects, irrespective of short maturities for current customer accounts, considers a significant level of a stable part in those balances. The Bank's customers have a trend of holding cash on current accounts during a long period of time.

Strategies of funding support the Bank's strategy. In this connection, the Bank strives to optimize and ensure for access to diversified sources of funding to support a long-term position and liquidity profile of the Bank.

In connection with the COVID-19 virus pandemic, the Bank assessed its impact on the Bank's liquidity and its ability to timely perform its obligations, capital of the Bank and its adequacy for ensuring operations and compliance of the bank with the ratios set by the National Bank of Ukraine.

The Bank has sufficient highly liquid assets and is able to fulfill all its obligations. Compared to 1 March 2020, the volume of highly liquid assets grew by UAH 226 million and, as at 17 April 2020, amounted to UAH 4.45 billion.

The Bank has been conducting profitable activities during the whole period of its existence.

Based on the 2019 performance, the Bank received profits in the amount of UAH 165 million and, for Quarter 1 of 2020, profits amounted to UAH 43 million.

In May 2020, the Bank is planning to register the increase in statutory capital by the amount of UAH 156 million at the cost of profits of the reporting year of 2019. The increase in statutory capital will make it possible for the Bank not only survive in the crisis conditions, but also develop and increase volumes of its operations.

Funds of customers represent a key source for the Bank's resource base. Besides, during the reporting period from the beginning of the year, a share of customer funds in the total volume of the Bank's liabilities increased from 75% to 82%. The Bank strives not only to retain the shaped customer base, but also attract new customers. In this connection, in compliance with the principle of all-purposeless, the Bank attracts for servicing, alongside with large corporate entities, representatives of small and medium business and individuals. Thus, it ensures comprehensive services to the sphere of consumer interests of the Bank's customers and their partners.

In the conditions of the COVID-19 virus pandemic, the Bank sees additional capabilities in attracting funds from legal entities and individuals by:

- Using loyalty programs to the Bank's depositors for the purpose of extending the existing and attracting new deposits;
- Performing face-to-face work with the most significant depositors, conducting meetings with corporate customers to determine possibilities for attracting funds;
- Adjusting earlier established limits and cost of the Bank's services with the purpose of creating favorable conditions for the most important customers;
- Applying standard tools of the National Bank of Ukraine for regulating liquidity. The Bank has concluded an agreement with the maximum limit of UAH 1 billion collateralized by highly liquid assets.

As for possible outflows of funds borrowed from customers, the Bank monitors, on a consistent (daily) basis, movements in cash on term and current accounts of customers and analyzes their fluctuations. Based on the analysis results, a specific decision is taken.

Considering that the Bank's customer base consists mainly of the customers related to the Bank, as well as those working with the Bank for many years, the Bank does not expect sharp cash outflows.

Due to the fact that a significant portion of the Bank's customers is from the economy sectors that have not suffered much from the COVID-19 impact, to date, the Bank observes even growth in the volume of cash on current accounts of customers (e.g., customers from trade sector). In the process of liquidity risk management, the Bank mitigates on a daily basis this risk by diversifying liability related transactions and reducing concentration, and creating a sufficient level of unencumbered highly liquid assets.

The Bank also attracts funding from international investors in order to diversify sources of funding. With this purpose, the Bank uses different funding tools that cover varied terms, markets, regions, and types of investors.

The Bank attracts funds for the period of more than one year by:

- Attracting a subordinated debt. As at 31 December 2019, the carrying value of the subordinated debt amounted to UAH 93 million (31 December 2018: UAH 143 million);
- Attracting long-term borrowings from international financial organizations. Based on the agreement entered into in November 2017 with WORLDBUSINESS CAPITAL, INC., USA, in December 2017, the Bank received a long-term borrowing for the period of 10 years in the amount of USD 8 million. In March 2019, the Bank received from WORLDBUSINESS CAPITAL, INC. the second long-term borrowing for the period of 9 years in the amount of USD 8 million.

Staff policy is an important component of the Bank's Development Strategies.

Managing people is one of the most important tasks in the effective staff policies in order to ensure for further development of the Bank.

As at the end of 2019, the number of the Bank's employees amounted to 1,045 persons, of which 71% were women and 29% – men. Almost 76% of the Bank's employees have complete higher education. Over 76% of employees have the age in the range from 25 to 49 years old, with the average of age of employees amounting to 41 years old.

Concept of human capital management is aimed at creating a system that is based not on administrative methods, but on economic incentives and social guarantees focused on bringing closer the employee's interests and the Bank's goals in achieving high labor productivity and obtaining the highest economic results from the Bank's operations.

A customer's decision to work with this or that bank depends to a significant extent on the level of service offered, professionalism, and staff skills to satisfy customers' needs, offer them new services at competitive prices.

That is why the Bank's human capital is considered as a key factor in the competitive struggle. In the conditions of today's dynamic development of the financial market, the competition is won by those who is able to create the effective staff management system.

Human capital is one of the most important assets of the Bank. Most employees of the Bank have sufficient experience in the banking sphere.

In addition, looking into the future, the Bank is planning to train young specialists at the level of their regular studies. Our plans go to creating in field-oriented higher education institutions target groups for training employees for the Bank majoring in finance and IT.

A key task in managing people is mobilize them for continuous and consistent improvement of the Bank's economic performance, which is realized through:

- Selecting qualified and interest employees;
- Using effectively mastery and skills of staff;
- Improving the system of incentives;
- Increasing the degree of work satisfaction by all categories of employees;
- Developing and supporting at a high level the system of advanced training of personnel;
- Promoting good moral environment in the organization;
- Managing staff careers;
- Influencing the creative activities of staff and assisting in realization of innovation plans;
- Improving methods of staff evaluation;
- Ensuring a high standard of employees' life, which makes desirable the work in the Bank.

One of the directions in staff policies is to improve qualifications of the Bank's employees by making them aware of recent achievements in banking so that they could implement those achievements in their day-to-day activities.

The Bank has high requirements to professional and personal qualities of its employees: proactivity, responsibility, corporate spirit, and culture. Severe competition in the banking market requires a consistent control over compliance of staff qualifications with new trends and tasks. In this connection, the Bank's management pays special attention to training of specialists, retraining, and improving their qualification.

Success and development of the Bank should be treated as achievement of all employees who promote strengthening the Bank's reputation, and the result of work of each employee has an impact on the results of work of the whole team and forms a foundation for the Bank's success in its operations.

The Bank has developed and implemented ***the Corporate Code of PJSC "BANK VOSTOK"*** which sets principles and corporate values in terms of protection of rights of the Bank's employees and ensuring their equal rights through compliance with human rights and dignity, creation of equal possibilities for all employees.

The Bank values its employees, creates for them working conditions in accordance with the regulatory acts on labor protection, ensures for compliance with the legislation requirements to rights of employees in labor protection, provides incentives for their work successes.

Guarantees of equal relations between the Bank and employees are ensured by way of:

- The Bank's complying with general mandatory rules of conduct and corporate ethics of the Bank, recognizing a significant role of leaders and employees of the Bank in ensuring the success of the Bank's activities outlined in the Corporate Code;
- Maintaining staff policies that presuppose equal rights in the process of electing candidates to members of the Supervisory Board and the Management Board of the Bank, other executives and employees to occupy positions in the Bank, possibilities for career growth, receiving remuneration with reference to professional achievements and personal contribution to the Bank's activities and, in the case of existence of the circumstances that lead to imposing penalties, complying with the objective assessment of actions undertaken by a leader or another employee. The Bank ensures equal rights to occupying positions and assigns employees to positions irrespective of sex, nationality, ethnic and social origin, sexual orientation, religious or political views, family status of leaders and other employees;
- The Bank's ensuring equal rights to taking a position and appointing people to positions irrespective of their sex, nationality, ethnic and social background, sexual orientation, religious or political beliefs, family status of employees;
- Creating such working conditions that are safe in terms of labor and health protection and other safeties;
- Creating corporate culture, the culture of risk management, in particular, a required atmosphere (tone at the top);
- Fulfilling mutual obligations, adhering to rights and responsibilities in accordance with internal regulations;
- Shaping possibilities for improvement of qualifications, training, obtaining knowledge by the Bank's employees at the cost of the Bank, as well as promoting this process at the cost own funds of employees.

The Bank ensures for timely payment of payroll to the Bank's executives and employees, tax payment, compensations for business trips, vacations, and other guarantees in accordance with the legislation and internal regulations.

The Bank has created a standing commission responsible for reviewing knowledge regarding labor protection of the Bank's employees. Health and safety briefings, trainings, and testing of the Bank's employees are systematically held. Persons who have not achieved the age of 21 years old shall be mandatorily medical examined in health care institutions, and motor vehicle drivers shall pass through regular medical inspections before work. In accordance with the legislation, the Bank has approved and agreed the Comprehensive Measures on Achieving Set Ratios and Improving the Existing Labor Protection Conditions that are performed in full. The Bank purchases specialized uniforms and personal safety means for the Bank's employees responsible for cash collection or security.

The Bank's strategies in the area of hygiene and labor safety determine policies, objectives, targets, key principles, and directions of the Bank's activities in creating appropriate and safe working conditions, avoiding injuries, professional diseases, traffic accidents, and occupational accidents.

In the conditions of the COVID-19 pandemic, the Bank's management creates all conditions to prevent the Bank's employees from infection contamination. A significant number of employees were transferred to remote work. Also, the Bank is planning reduction of employees or changes in their remuneration.

An integral part of the Bank's Corporate Code is the policy on prevention of corruption which presupposes policies of "zero tolerance", irreversible punishment for any displays of corruption, bribery, and fraud, and treats them as inadmissible in banking.

To prevent participation or use of the Bank and employees in corruption, the Bank ensures control over the compliance of employees with the requirements of policies on preventing and counteracting the corruption, bribery, and fraud in the course of fulfilling their functional duties which has three levels in organization and complies with internal control policies and risk management of the Bank.

The issue of environmental protection is of key significance nowadays. The Bank has entered into agreements with specialized entities on utilizing of used fluorescent lamps, car batteries, car tires, used office and small household appliances.

Also, to optimize the use of the planet's resources and improve the environmental situation in cities, it is helpful to collect recyclable materials (waste paper). The Bank hands over the waste paper for recycling.

In the reporting year, the Bank continued granting charitable and sponsorship aid and paying personal scholarships to students.

During 2019, payments to charitable and sponsorship aid amounted to more than UAH 6.7 million.

This assistance was as follows:

- Special purpose – to people suffering from different diseases;
- Charitable Organization "Jewish Fund "Unity of Tribes of Israel" – to implement the Fund's programs, such as assistance to socially unprotected people: persons with special needs, pensioners, children, incomplete and multi-child families. To perform its mission, the Fund implements special purpose programs related, in the first hand, to providing timely medical help, purchasing medicine and food products;
- "Urban Music Hall" Project. This project launched in March 2018 is a unique concert platform in the city that is equipped for attendance by people with disabilities;
- Orphanage – to pay for food products for children;
- Association of Jewish Organizations and Communities "Vaad of Ukraine" – to organization of summer camps for Jewish children and children of other nationalities and religions;
- Charitable Foundation "Myloserdia Viktor" that provides charitable assistance to children, multi-child families, boarding schools, orphanages, veterans. Effective from 2006, the Foundation has been actively providing assistance to the Janusz Korczak Institute for Medical Rehabilitation of Children with Central Nervous System Lesion, in particular, in equipment of a new department located at 27/1 Kosmonavtiv Str., Odesa, with modern rehabilitation equipment, specialized furniture and facilities. The Institute organizes treatment of people with severe disabilities and rehabilitates families with children exposed to a high risk of disabilities in early age, and children with disabilities;
- The Jewish Confederation of Ukraine to support its statutory activities;
- Recurring charitable assistance to chess organizations, including the Union of Chess and Checkers Clubs to conduct different chess tournaments for children, as well as chess players of all age categories;
- Public Organization "World Club of Odesa Residents" that establishes and develops ties among Odesa residents irrespective of their actual place of residence and citizenship, consolidates and coordinates efforts of Odesa residents with the purpose of reviving and preserving the City of Odesa, with the main direction aimed at developing and implementing programs in the areas of culture, science, arts, environmental protection, health care, human rights protection, charity, and other programs directly related to the life and activities of Odesa;
- Public Union "BUSINESS Incubator GROUP" – to support entrepreneurship development of small and medium business;
- CF "Corporation of Monsters" to support its statutory activities;
- CO "Yalta European Strategy" to perform tasks determined by the Organization's Charter – to promote the European integration of Ukraine by means of conducting researches, collecting, systemizing, and analyzing data, forecasting, developing concepts, recommendations, initiatives in the area of international, social, political, and economic relations;
- Public Organization "Golden Violins" to support in organization and preparation of the Fifth International Music Festival "Golden Violins" held in Odesa in September-October 2019;
- The National Odesa Philharmonic Orchestra to realize the main objective of the Orchestra in promoting revival, enrichment, and development of the national culture, popularizing the domain of Ukrainian and global music arts, aesthetic education of people, and extending international cultural ties;
- Soccer organization of Mykolaiv and Dnipro to develop and popularize football among broad population, conduct different soccer championships and tournaments;
- The Odesa Regional Council of Peace – to hold a celebration "Saint Mykolai's Wonders" for three thousand children from Odeska Region held in the Palace of Sports;
- CF "Music" to support the Black Sea Music Fest in the city of Odesa. Supported by PJSC "Bank Vostok", in August 2019, the Green Theater of Odesa saw the opening of the Sixth International Music Festival "Black Sea Music Fest" within the framework of which Odesa residents and guests of the city were able to attend eight wonderful concerts with participation of the world stars, the National Odesa Philharmonic Orchestra and conductor – Hobart Earle, People's Artist of Ukraine;
- Charitable Fund "Museum Friends" to perform urgent accident-prevention works in the Odesa Art Museum, a listed building and national architectural monument, as well as for the Museum's development taken as a whole. The Fund's activities are aimed at improving services, increasing the number of visitors, and creating the community of sponsors to support the Museum's development;
- Other charitable foundations and public and religious organizations, other legal entities.

The Bank established personal scholarships to students of the Odesa National Economic University for high achievements in studies, active public and scientific work, and sports achievements. In 2019, such scholarships were paid to four students and will be regularly paid in the future.

The Bank also decided to pay, effective from 2019, monthly charitable financial aid to the Righteous among the Nations, Danilianz, O. H. and Voloshyn, V. Ye.

In 2019, PJSC "Bank Vostok" continued supporting projects and programs and participating in charitable actions:

- In March 2019, supported by PJSC "Bank Vostok", chess lectures "Meetings in Kanatna" were held. The cycle was devoted to chess in the history of Odesa and represented by the Union of Chess and Checkers Clubs in Odeska Region and the Odesa Regional Organization of the National Union of Journalists of Ukraine;
- The Bank supported the Open Cup Contest "What? Where? When?" named after Leonid Chernenko, President of the Erudit Intellectual Club, member of the Management Board of International Association of Clubs "What? Where? When?";
- The Bank also supported the music festival of KharkivMusicFest that filled the spring Kharkiv with classical music of varied kind and acted as its partner;
- The Bank and Mastercard presented two unique banking cards at the opening of the Odesa Green Theater created specifically for those who like the city environment and desire to help it;
- In June 2019, the city of Odesa, supported by PJSC "Bank Vostok", held the Chess Junior Championship of Ukraine. The chess tournament of such a high rank was hosted by Odesa for the second successive year. 120 chess players from all parts of Ukraine participated in the tournament;
- Supported by PJSC "Bank Vostok", in June 2019, the Classical Chess Championship of Ukraine for youth up to eight years of age was held in the Sanatorium "Bila Akatsiia" in Odesa;
- In July 2019, the Museum of Modern Arts in the city of Odesa, supported by PJSC "Bank Vostok", opened a wide-scale exhibition of works from the collection of Yevhen Demeniuk called "Colored Archive". During 15 years, the researcher collected a versatile collection of Odesa artists' works ranging from the beginning of the 20th century to our days;
- In September 2019, PJSC "Bank Vostok" acted as a partner in celebrations of the Day of the City of Mykolaiv;
- In October 2019, PJSC "Bank Vostok" supported the charitable festival Home Me Fest. The Festival helped find families for dogs and cats living in Odesa animal shelters;
- On 6 October 2019, on the Teacher's Day, PJSC "Bank Vostok" presented to Odesa teachers a concert of the National Odesa Philharmonic Orchestra conducted by Hobart Earle, People's Artist of Ukraine. The celebration was held in the Philharmonic Hall and attended by about 1,000 teachers;
- Supported by PJSC "Bank Vostok", on 9 November 2019, the Ukrainian Theater staged the play "Odesa Wedding". Residents and guests of Odesa attended the first night of the play adapted from works of the famous satirist, resident of Odesa Mykhailo Zhvanetskyi "Odesa Wedding";
- PJSC "Bank Vostok" supported the festival of Berlin.Odesa.Fest that was held in November 2019 – 10 days of jazz and arts;
- In December 2019, supported by PJSC "Bank Vostok", for the first time in Ukraine, the concert was held of Krzysztof Penderecki's Symphony # 7.

During March-April 2020, PJSC "Bank Vostok" provided charitable aid to health care institutions by purchasing artificial lung ventilation units, medical facilities, personal protection means, disinfectants to realize preventive measures to the COVID-19 coronavirus spread in the amount of more than UAH 2.1 million.

To achieve its strategic goals, the Bank is fully equipped with ***material, technical, and software means*** required to fulfill the goals set.

Server and APM premises comply with the requirements of the National Bank of Ukraine, the network of the Bank's outlets is united by high-speed digital communication channels, outlets and offices of the Bank are fully equipped with computer and office facilities and banking equipment.

Each computer of the Bank is connected to the banking network, the communication system is built with reference to potential hardware failures – uninterrupted functioning is ensured by backups of the most important backbone communication channels. Main network nodes are connected with each other with the help of high speed optical channels of digital communication. The communication system is supported by leading regional operators – Ukrtelecom, Data-Group, and Farlep-Invest. The Bank operates ABS SR-Bank v.4 (developed by LLC "Soft-Review", Kyiv, Certificate # SEPO0011).

The unified information system created in PJSC "Bank Vostok" meets all requirements to the Bank's automation and has broad capabilities for scalability and extension in the course of the Bank's development, in particular, when opening outlets and representative offices.

The Bank has vehicles in place, in particular, specialized vehicles for transporting valuables and cash collection.

As a vault, the Bank uses safes certified by the State Committee for Technical Regulation and Consumer Policies of Ukraine in accordance with the requirements of DSTU 4012.1-2001.

Signalization was designed and installed by the State Security Service. The security and fire safety system meets the requirements the effective Construction Rules and Regulations, Technical Specifications, regulation of the Ministry of Internal Affairs of Ukraine on implementation and operation of technical security facilities and is continuously supported in operating condition. The banking institution is equipped with certified intruder detection and alarm systems.

Risk management system

The Bank has built an effective risk management system which is a component of the Bank's internal control system and envisages for distributing functions, duties, and authorities among business and support units as the first line of defense, Risk Management Department and Compliance Department as the second line of defense, and Internal Audit Department as the third line of defense by using the model of three lines of defense. With the help of this system, the Bank identifies risks, evaluates them, and monitors and controls its risk positions, as well as considers interrelations between different risk types.

Risk management system allows the Bank's management receiving at any time adequate information about the state of the Bank's activities, level of accepted risks and their relation to equity, resilience of the Bank to negative displays in the market, and has an impact on taking strategic decisions and directly on business. With the help of comprehensive information on risks, the Bank creates conditions for mitigating uncertainty in its activities.

Risk management process in the Bank covers all its structural levels – from management level (the Supervisory Board, the Management Board, other collegiate bodies of the Bank) to the level where risks are directly accepted (business and support units).

The Bank's risk management system is based on the Strategic Development Plan of the Bank, Risk Management Strategies, and separate policies on risk management, as well as methodologies and procedures on risk management by risk types and ensures a continuous analysis of risks with the purpose of taking timely and adequate management decisions at mitigating risks and reducing risk related costs.

Risk management strategies and policies make up a component of general corporate governance system, the Bank's internal control system that determines key goals and basic principles of managing risks arising from all spheres of the Bank's activities at all organization levels, the procedure for organizing risk management processes, the reporting procedure on risks, segregation of risk management functions among the Bank's risk management system subjects performing risk management functions and risk acceptance functions and establishing requirements to organizing in the Bank a comprehensive, adequate, and effective risk management system.

During the reporting period, the Bank improved and continued implementing processes for building the effective risk management system, in particular, through actions of the risk management system subjects on development of the Declaration on Risk Appetite that determines the total level and types of risks that the Bank intends to accept and maintain in order to achieve its business goals; the maximum acceptable risk level for the Bank with reference to the need of compliance with the requirements of the National Bank of Ukraine and obligations to investors, depositors, lenders, and shareholders.

Measures on development and implementation of the Bank's Declaration on Risk Appetite, with reference to other approved internal regulations of the Bank were undertaken with the purpose of:

- Ensuring the Bank's stable operations and its meeting on a timely basis the obligations to depositors by means of preventing the unreasonable allocation of resources and loss of capital due to the risks inherent in banking;
- Ensuring and protecting interests of shareholders, participants, lenders, customers and other parties interested in the Bank's stable activities so that the risks accepted by the Bank did not threaten its existence;
- Managing the ratio of profitability/risk;
- Ensuring the Bank's stable development within its Development Strategies;
- Strengthening the Bank's competitive advantages as a result of strategic planning, with reference to the level of risks accepted, improved risk management efficiency, and increased market value of the Bank, and preserving the Bank's reliability when the range of products is extended;
- Increasing the confidence of investors at the cost of creating a transparent risk management system based on the corporate governance system built by the Bank;
- Developing risk management infrastructure, implementing state-of-the-art methods and risk management tools by applying the best international experience in risk management.

To achieve its business goals and based on the specific nature of its activities and business model, the Bank accepts, maintains, monitors, and controls on a consistent basis for mitigation purposes the following types of risks that its considers to be significant:

Credit risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of a debtor/counterparty to fulfill its obligations taken in accordance with the contractual terms and conditions. The Bank minimizes (mitigates) its credit risk by carefully selecting and analyzing the credit ability of potential borrowers, diversifying the customer base, controlling the loan use, accepting as a collateral highly liquid assets and insuring them, creating relevant provisions, monitoring borrowers on a consistent basis, complying with set credit risk ratios, maintain the adequate level of equity, setting risk appetite indicators on this type of risk;

Liquidity risk represents a probability of losses or incremental losses or failure to receive planned income as a result of failure of the Bank to finance the increased assets and/or fulfill its obligations when they are due. This is a risk of imbalance in cash proceeds and outflows that gives rise to deficit or excess in liquidity. The Bank minimizes (mitigates) its liquidity risk by balancing the Bank's assets and liabilities, maintaining at a high level highly liquid assets together with clear compliance with the ratios set by the National Bank of Ukraine. To minimize its liquidity risk, the Bank consistently assesses its liquid position, analyzes external and internal factors that have an impact on liquidity. The estimation of factors makes it possible to identify in a timely manner negative deviations from normal activities and take relevant management decisions. The liquidity risk is mitigated at the cost of strict abidance by the mandatory economic ratios set by the NBU, compliance with the NBU's requirements to obligatory provisioning for borrowed funds, developing, implementing, and controlling the Bank's internal liquidity risk limits, optimizing the Bank's liquid position by all currencies, diversifying asset contributions and sources of borrowed funds, monitoring on a consistent basis the quality of the Bank's assets, implementing the effective system for coordinating the liquidity risk management, forecasting fluctuations in cash balance on accounts of the Bank's customers, setting risk appetite indicators on this type of risk;

Market risk and interest rate risk of bank book represents a probability of losses or incremental losses or failure to receive planned income as a result of the effect of unfavorable changes in exchange rates, interest rates, and value of financial instruments. The Bank minimizes its currency risk by: severely abiding by strict currency position ratios, managing open currency position based on VaR calculation (structural optimization), setting limits to currency operations, performing hedging, forecasting proceeds and payments in foreign currencies, and projecting foreign exchange rates. Interest rate risk of bank book is mitigated by forecasting changes in market interest rates, performing GAP management (managing susceptible to interest rate fluctuations assets and liabilities), forecasting a potential amount of under-received interest income of the Bank, setting risk appetite indicators on this type of risk;

Operating risk represents a probability of losses or incremental losses or failure to receive planned income as a result of deficiencies or errors in organization of internal processes, deliberate or unintentional actions of the Bank's employees or other persons, failures in operation of the Bank's information systems or due to the effect of external factors. Operating risk includes legal risk, information risk and also may include reputational and strategic risks. This type of risk is mitigated by establishing processes for identifying and assessing events of the Bank's operating risk, monitoring on a regular basis the arising risks, implementing a fraud management system, distributing access rights in information systems and complying with information security rules, applying key risk indicators, implementing a system of measures on reducing information security risk, outsourcing, testing on a regular basis business continuity plans, setting tolerance levels on this type of risk, etc.;

Compliance risk represents a probability of losses/sanctions, additional losses or failure to receive planned income or loss of reputation as a result of the Bank's failure to comply with the requirements of the effective legislation, regulations, market standards, fair competition rules, corporate ethics rules, a conflict of interest, as well as internal regulations of the Bank.

Compliance risk management in the Bank is aimed at:

- Determining processes/transactions where internal control procedures are not sufficient to maintain an acceptable level of compliance risk;
- Reviewing, defining, and allocating priorities in respect of potential compliance risk zones, as well as advising on relevant standards, procedures, and decisions in the sphere of compliance;
- Determining possible changes in controls (mitigating the risk, refusing from operations) in order to ensure a general level of compliance risk at an acceptable level;
- Reviewing, identifying violations of the effective legislation requirements, standards of professional associations covering the Bank's activities, internal banking documents, customer service standards, cooperation with third parties due to existence of contractual relations;
- Identifying criminal or other illegal behavior or the behavior incompatible with internal standards and rules of the Bank;
- Identifying conflicts of interest;
- Taking adequate and timely management decisions.

To support the Bank's positive image and mitigate compliance risk, the following key procedures and measures are undertaken through implementing the system of compliance and internal control:

- Ensuring open and transparent interrelations of the Bank with all stakeholders;
- Complying with a 'tone at the top' principle and maintaining a spotless reputation by management of the Bank;
- Establishing 'zero tolerance', **unavoidability of punishment** for any acts of fraud and corruption;
- Observing by the Bank of the legislation requirements of Ukraine, together with studying its customers, counterparties, third parties in the course of establishing business relations and further mutual cooperation with them in terms of non-admitting corruption violations, illegal activities in the sphere of financial monitoring, sanctions, and other discrepancies;
- Adhering to competitive and ethical behavior of the Bank in the market of banking services and complying with other principles and components of the Bank's activities set in the Corporate Code;
- Maintaining a clear position in the sphere of antimonopoly regulation that is based on non-performing any agreed anticompetitive actions in accordance with the antimonopoly legislation;
- Working consistently on the Bank's image and shaping a positive public opinion of the Bank
- Introducing changes in the Bank's processes and/or intensifying controls;
- Implementing a system of limits and restrictions on compliance risk;
- Developing/updating relevant standards, instructions, procedures, when needed, with the participation of Compliance Department;
- Controlling by Compliance Department the timeliness and correctness of the Bank's internal regulation updates, in particular, those regulating business processes, banking transactions, and products;
- Coordinating by Compliance Department and participating in the development of action plans aimed at minimizing the compliance risk to an acceptable level;
- Preparing by Compliance Department relevant recommendations, ensuring the consulting and information support of the Bank's employees in the areas relating to their authorities on compliance to minimize compliance risks and prevent their appearance in the future;
- Making the Bank's management and operating units aware, with the help of Compliance Department, about changes in regulators' requirements (information digests), for this purpose consistently monitoring and analyzing external inputs on changes in regulatory rules and norms;
- Arranging for preventive measures related to developing and implementing by Compliance Department of educative measures aimed at informing and improving awareness of employees on compliance related issues.

Potential possibilities as a result of qualitative compliance risk management are further reflected in:

- The Bank's ability to raise resources for its activities;
- Implementing efficient mechanisms and tools for effective and timely response to challenges of modern business;
- Shaping a positive opinion and confidence of the Bank, which ensures its competitive ability in the financial market and sustainable development.

Consequences of a failure to ensure qualitative risk management within the Bank may include:

- Negative financial consequences in the form of losses/additional expenses/failure to receive planned income;
- Enforced actions to the Bank from regulators for violations of the effective legislation;
- Loss of confidence and reputation of the Bank that, to date, is one of the key components of its long-term successful operations.

Considering unstable and tense economic and financial situation in the world and Ukraine, in particular, in the banking system, and taking into account a possible further adverse development of events, the Bank recognizes the need in implementing timely and efficient corrective actions to prevent from increasing in the Bank the rate and volume of non-performing assets, such as:

- Selecting carefully potential borrowers;
- Adhering strictly to general principles and conditions of lending operations in accordance with the legislation of Ukraine, regulations of the NBU, and internal provisions of the Bank;
- Undertaking measures on early identification of debtors/counterparties with indicators of potential problems, and debtors/counterparties that are not going to cooperate with the Bank on debt repayment;
- Performing short- and medium-term restructuring of the amounts due, with reference to individual decisions in respect of each debtor, short-term deferrals of payments;
- Considering own experience on applying tools by the Bank aimed at resolving debts in the past.

To ensure the effective management of distressed assets and decrease the level and volume of non-performing assets and repossessed properties, the Bank determines and implements principles for organizing the process of distressed assets management, target indicators and ways for their achievement, approaches to ensuring the functioning of early response system to be implemented in the Strategy for Managing Non-Performing Assets and Operating Plan on Realization of the Strategy for Managing Non-Performing Assets.

Considering the assessment of external factors and operating environment, the Bank pays a special attention to careful control of the compliance with set economic ratios, risk appetite indicators, limits and restrictions in accordance with the requirements of the NBU's regulations and internal documents to ensure the Bank's stable work and timely fulfillment of obligations by means of preventing the unreasonable allocation of resources and loss of capital.

Relationships with shareholders and related parties and managing them

In accordance with the Law of Ukraine "On Banks and Banking", the Bank's related parties are represented by a number of individuals or legal entities that meet the requirements of Article 52 of this Law and which include, inter alia, shareholders and management of the Bank.

The Bank has implemented a process for identifying its related parties and controlling transactions with them, ensuring for appropriate identifying, determining monitoring, reporting, managing, and controlling the Bank's related party transactions.

A procedure for the Bank's related party transactions, submitting information about such parties to the National Bank of Ukraine, and other issues related to measures of corporate governance, internal control, and risk management in this respect are regulated by internal regulations of the Bank.

The Bank transacts with its related parties with unconditional compliance with the requirements and restrictions established by the effective legislation, in particular the Law of Ukraine "On Banks and Banking", and regulations of the National Bank of Ukraine.

The Bank controls its related party transactions using a precaution that a beneficiary of a transaction and/or its related party may not be involved in the process of performing and managing the related party transaction.

Related party transactions are subject to regular reviews on behalf of internal and external audit, with reports on findings based on those reviews submitted to the Bank's Supervisory Board.

The Bank's Management Board makes the Bank's Supervisory Board aware of untimely or inappropriate fulfillment of obligations by related parties to the Bank.

All related party transactions are performed in compliance with principles of control in accordance with the requirements of the Bank's internal regulations and the effective legislation. Control over related party transactions is executed by the Bank's employees in compliance with their functional duties and includes a list of procedures that ensure integrity and completeness of the related party identification process in performing transactions, control over such transactions, as well as the procedures that ensure control over compliance with limits and restrictions.

When identifying related parties, performing banking transactions with them and other contacts, the Bank's employees strictly comply with the established rules and procedures, as well as strive to avoid to a maximum degree the impact on behalf of related parties (including shareholders) with the purpose of minimizing of their possibility to receive gains at the cost of deteriorated performance of the Bank. Relationships are managed by means of control over processes on behalf of employees of Risk Management and Compliance Departments.

During 2019, the Bank performed active operations with related parties, but the volume of those transactions was immaterial in relation to the total loan portfolio of the Bank and has no effect on its performance.

Performance and key performance indicators and further development prospects

In 2019, the Bank's performance that make it possible to understand major trends and factors affecting the Bank's business were as follows.

Total assets of the Bank as at 31 December 2019 amounted to UAH 10,690,883 thousand, which was by UAH 1,350,017 thousand or 14.45% more than in the previous year (31 December 2018: UAH 9,340,866 thousand).

The Bank's assets as at 31 December 2019 had the following structure:

Loans and advances to customers amounted to UAH 6,523,854 thousand or 61.02% of total assets (31 December 2018: UAH 6,567,014 thousand or 70.30%).

Cash with the National Bank of Ukraine and due from other banks amounted to UAH 1,226,800 thousand or 11.48% of total assets (31 December 2018: UAH 977,551 thousand or 10.47%).

Cash and cash equivalents amounted to UAH 893,484 thousand or 8.36% of total assets (31 December 2018: UAH 687,234 thousand or 7.36%).

Securities portfolio amounted to UAH 1,612,575 thousand or 15.08% of total assets (31 December 2018: UAH 808,857 thousand or 8.66%).

Premises and equipment and intangible assets amounted to UAH 139,234 thousand or 1.30% of total assets (31 December 2018: UAH 75,450 thousand or 0.81%).

Right-of-use assets amounted to UAH 75,430 thousand or 0.71% of total assets. The item appeared due to adoption of IFRS 16 "Leases" in 2019. There is no comparative information for 2018 – the Bank applied a modified retrospective approach under which comparative information is not reassessed.

Other financial and non-financial assets amounted to UAH 217,012 thousand or 2.03% of total assets (31 December 2018: UAH 219,987 thousand or 2.36%).

In 2019, the Bank's equity increased by UAH 175,256 thousand or 24.67% and, as at 31 December 2019, amounted to UAH 885,666 thousand.

Based on its performance, in 2019, the Bank received net profit in the amount of UAH 165,088 thousand, which was by UAH 42,984 thousand or 35.20% more than in 2018.

Net services and commission income of the Bank for 2019 amounted to UAH 332,646 thousand, which was by UAH 73,997 thousand or 28.61% more than in 2018. The largest portion in services and commission income (UAH 210,799 thousand or 63.37%) referred to fees and commissions on cash and settlement transactions with customers.

Gain on foreign currency transactions of the Bank in 2019 amounted to UAH 46,125 thousand, which was at the level of 2018 (UAH 46,947 thousand), which is the evidence of stable profits on the said income items.

Operating income of the Bank for 2019 amounted to UAH 19,438 thousand, which was by UAH 2,300 thousand or 10.58% more than in 2018. A major component of operating income (UAH 18,225 thousand or 93.76%) was gain on implementation of a joint marketing program with MasterCard.

Operating expense of the Bank in 2019 grew by UAH 155,492 thousand or 22.20% and amounted to UAH 855,840 thousand. Staff related costs amounted to UAH 406,834 thousand or 47.54% of operating expense.

A key direction of the Bank's active operations is lending to legal entities and individuals.

During 2019, the volume of loans granted (net of allowances for impairment of loans) decreased by UAH 43,160 thousand or 0.66% due to a significant decrease in foreign exchange rates and, as at 31 December 2019, amounted to UAH 6,523,854 thousand.

During 2019, the volume of loans granted to legal entities (net of allowance for loan impairment) decreased by UAH 118,169 thousand or 1.74% and, as at 31 December 2019, amounted to UAH 6,660,634 thousand. The Bank provided lending to entities of trade (43.59% of loan portfolio of legal entities), manufacturing (15.80%), agriculture and food processing (15.19%), transport and communication (9.11%), construction and real estate (8.97%), and other (7.34%).

The volume of loans granted to individuals (net of allowance for loan impairment) increased by UAH 61,012 thousand or 142.98% and, as at 31 December 2019, amounted to UAH 103,683 thousand.

Loan portfolio of individuals consisted of consumer loans (51.54% of loan portfolio of individuals), mortgage loans (26.46%), credit card loans (21.85%), and car loans (0.15%).

As at 31 December 2019, total gross value of loans granted to 10 largest borrowers of the Bank amounted to UAH 1,520,129 thousand or 22.47% of total loan portfolio. In addition, as at 31 December 2019, loans to 10 largest borrowers of the Bank were partially secured by the pledge of property rights to deposits in the amount of UAH 225,931 thousand.

Due from other banks, as at 31 December 2019, amounted to UAH 819,566 thousand, which was by UAH 247,971 thousand or 43.38% more than as at 31 December 2018.

Term deposits placed with other banks amounted to UAH 416,218 thousand or 50.79% of total due from other banks.

Securities portfolio as at 31 December 2019 amounted to UAH 1,612,575 thousand, which was by UAH 803,718 thousand or 99.36% more than as at 31 December 2018.

Securities portfolio included:

- Domestic government loan bonds ("DGLBs") for the amount of UAH 490,666 thousand;
- Deposit certificates issued by the NBU for the amount of UAH 1,121,909 thousand.

The Bank's liabilities increased by UAH 1,174,761 thousand or 13.61% and, as at 31 December 2019, amounted to UAH 9,805,217 thousand.

The volume of customer accounts for 2019 increased by UAH 1,341,967 thousand or 26.25% and, as at 31 December 2019, amounted to UAH 6,454,700 thousand, with a portion in total liabilities amounting to 65.83%.

Current account balances of legal entities amounted to UAH 5,191,853 thousand or 80.44%. Major customers of the Bank were represented by entities of transport and telecommunications (35.37%) and trade (29.14%). Current account balances of individuals amounted to UAH 1,262,847 thousand or 19.56%.

As at 31 December 2019, included in current account balances were deposits 'on demand' in the total amount of UAH 126,758 thousand, of which UAH 62,257 thousand belonged to individuals and UAH 64,501 thousand to legal entities. Interest rates on such deposits amounted to the range from 0.1% to 16% p.a., depending on the account balance.

As at 31 December 2019, total amount of cash of the Bank's 10 largest customers on current accounts amounted to UAH 1,813,763 thousand, or 28% (31 December 2018: 25%) of total cash on current accounts.

Included in customer accounts were balances in the total amount of UAH 477,911 thousand placed by customers as a collateral in the total amount of UAH 451,309 thousand.

Deposit portfolio of the Bank during 2019 increased by UAH 468,607 thousand or 23.13% and, as at 31 December 2019, amounted to UAH 2,500,114 thousand, with a portion in total liabilities amounting to 25.50%.

Deposits of legal entities amounted to UAH 589,055 thousand or 23.56% of total deposit portfolio. Major customers of the Bank were represented by entities of food processing industry (28.30%), other industries (27.22%), and transport and telecommunications (20.50%).

Deposits of individuals amounted to UAH 1,911,059 thousand or 76.44% of total deposit portfolio.

As at 31 December 2019, total amount of cash of the Bank's 10 largest customers on deposit accounts amounted to UAH 719,060 thousand or 29% of total deposit portfolio (31 December 2018: 39%).

During 2019, due to other banks decreased by UAH 839,473 thousand or 79.50% and, as at 31 December 2019, amounted to UAH 216,421 thousand, which amounted to 2.21% of total liabilities.

Short-term borrowings received by the Bank from other banks amounted to UAH 86,118 thousand or 39.79% of total debt. 100% of this debt related to short-term deposits from a non-resident bank.

Term deposits attracted from other banks amounted to UAH 66,092 thousand or 30.54% of total debt. 100% of this debt related to a term deposit attracted from a non-resident bank at the rate of 3.68% in EUR.

Correspondent accounts and overnight deposits amounted to UAH 64,211 thousand or 29.67% of total debt. The largest debt on correspondent accounts with other banks amounted to UAH 56,219 thousand.

The analysis of the Bank's financial performance evidences of the stable growth in indicators by using both quantitative (increase in assets, equity) and qualitative (increase in profits) criteria, which confirms the right strategy chosen and weighted application of approaches to the management by the Bank's management.

One of the priority directions of the Bank's activities for the next years is to maintain liquidity at a sufficient level and ensure timely implementation of legislative requirements and the most effective methods and liquidity management systems.

Asset management policies presuppose that the Bank's operations are aimed at placing own and borrowed funds to receive gains and ensure the sufficient level of liquidity and solvency of the Bank. The Bank adheres to principles of weighted financial management in shaping and managing the structure of its assets and liabilities, effective management of ratio of individual sources to types of liabilities, creation of the optimal structure of balance sheet, increase in solvency, and strengthened financial resilience.

Transparency in business is the most important condition for successful realization of the tasks set in capital management.

In planning its strategies for the years to come, the Bank pays special attention to such aspects as transparency, disclosure of information, and appropriate corporate governance.

On an annual basis, the Bank is audited by LLC "Deloitte & Touche USC", including for the purpose of being transparent and understandable to its foreign partners.

And, certainly, the priority in the Bank's activities shall be given to providing services of the highest quality, further increase in the range of banking products, improvement of the product line, implementation of new progressive technologies, granting loans to legal entities and individuals, support of small businesses, and regional policies aimed at realizing socially significant tasks.

Implementation of new attractive loan and deposit products will make it easier for individuals to purchase comprehensive services. Much attention will be given to the increased quality of services and bringing the Bank closer to customers through opening new points of banking product sales.

The Bank sets the following goals for 2020:

- Achieve profitability of operations in 2020;
- Work on attracting to servicing partners of Fozzy Group;
- Implement a range of measures on realizing a co-branding project of Bank Vostok-Fozzy Group;
- Develop close relations with international financial institutions and foreign partner banks;
- Develop new banking products/services for small and medium business;
- Develop further own Internet-Banking for individuals, work with mobile applications, and integrate with social networks;
- Conduct transactions with securities;
- Create a unified payment system.

In corporate sector:

One of important priorities in the work of the Bank's corporate business is to conduct planned and day-to-day work on offering a whole range of banking services to leading entities in the region and leaders in this or that industry of Ukraine.

One of the main projects relates to ensuring regional presence in major port centers of the country – we are developing the Bank as a single industry settlement center. A significant place in our strategy is given to support and development of customers' business and their interests in the market of transport services.

In 2020, the Bank is planning to implement electronic document workflow.

As for payment card transactions, in 2020, the following projects are planned to be realized:

- Replace the card back-office of IS-Card to the system that would allow maintaining all retail products of the Bank – SOLANTEC;
- The Bank intends to conclude an agreement on servicing cards with UnionPay;
- Realize the service of SMS-requests for actual balance on the card.

In 2020, the Bank is planning to arrange an acquiring trade business of the Bank:

- Issue chip and contactless cards of VISA;
- Develop measures on attracting legal entities and individual entrepreneurs to servicing corporate card products;
- Ensure the Bank's participation in card issue projects operating under NFC standard;
- Internet-acquiring.

In 2020, it is planned to increase the number of individuals receiving pensions and social assistance and also attract for servicing individuals-sailors.

In 2020, it is planned to conclude an agreement and launch a transfer system of Privatbank – Privat Money.

To attract new customers and expand the Bank's presence in the cities of Ukraine in 2020, it is planned to:

- Open nine new outlets (total number of outlets as at 1 January 2021 will amount to 48 units) and expand/move seven units, in particular:
- Open one full-functioning outlet (Category B) in one of regional centers in Western Ukraine (Lutsk, Khmelnytskyi, Uzhhorod) where the Bank is not present to date;
- Open one full-functioning outlet in the new for the Bank regional center located in the central part of Ukraine;
- Open VIP-outlets in the cities of Kharkiv and Kyiv;
- Open three new retail outlets in the city of Mykolaiv;
- Open one retail outlet (Category C) in the city of Kyiv;
- Open one retail outlet (Category C) in the city of Odesa;
- Move Eastern Regional Department to new premises, open on its basis a new full-functioning outlet (Category A).

In connection with the COVID-19 coronavirus pandemic, PJSC "Bank Vostok" is not planning to amend its plans on the Bank's presence expansion in the cities of Ukraine.

For the reporting period, the Bank has been developing in the directions that ensure the extension of resource base, preservation and increase of growth rates. Key directions have been shaped on the basis of the banking market analysis:

- Gain and retain a positive reputation among consumers and competitors;
- Expand business at the cost of development programs within joint projects with entities of the Bank's shareholders;
- Improve and extend the range of services, increase productivity (volume of services) with the use of modern technologies;
- Expand and diversify the customer base;
- Increase the resource potential and the level of profits;
- Attract new investments;
- Decrease risks of lending activities;
- Optimize the ratio of profitability to liquidity of banking transactions;
- Develop flexible interest rate and tariff policies;
- Expand the presence at the cost of increased regional network;
- Implement state-of-the-art bank technologies and service standards;
- Improve decision making procedures;
- Ensure the brand development;
- Expand and optimize a list of banking products and services in all market segments for the purpose of improving service standards for customers, active implementation of cross-sales, and ensuring growth in profitability of banking transactions.

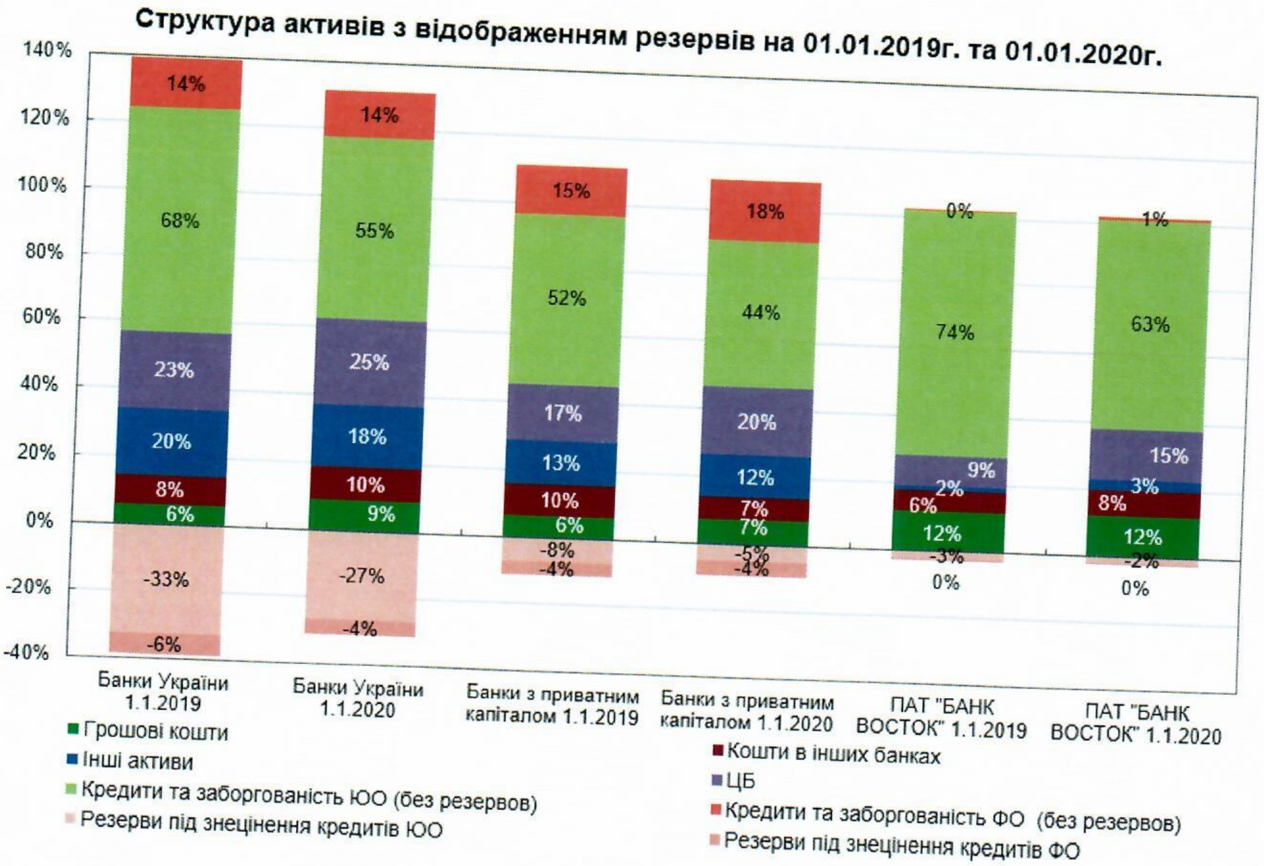
According to the National Bank of Ukraine, as at 1 January 2020, 75 banks are registered and have licenses for conducting banking transactions, of which one is in the process of reorganization.

The National Bank of Ukraine has set the following criteria for determining separate groups of banks:

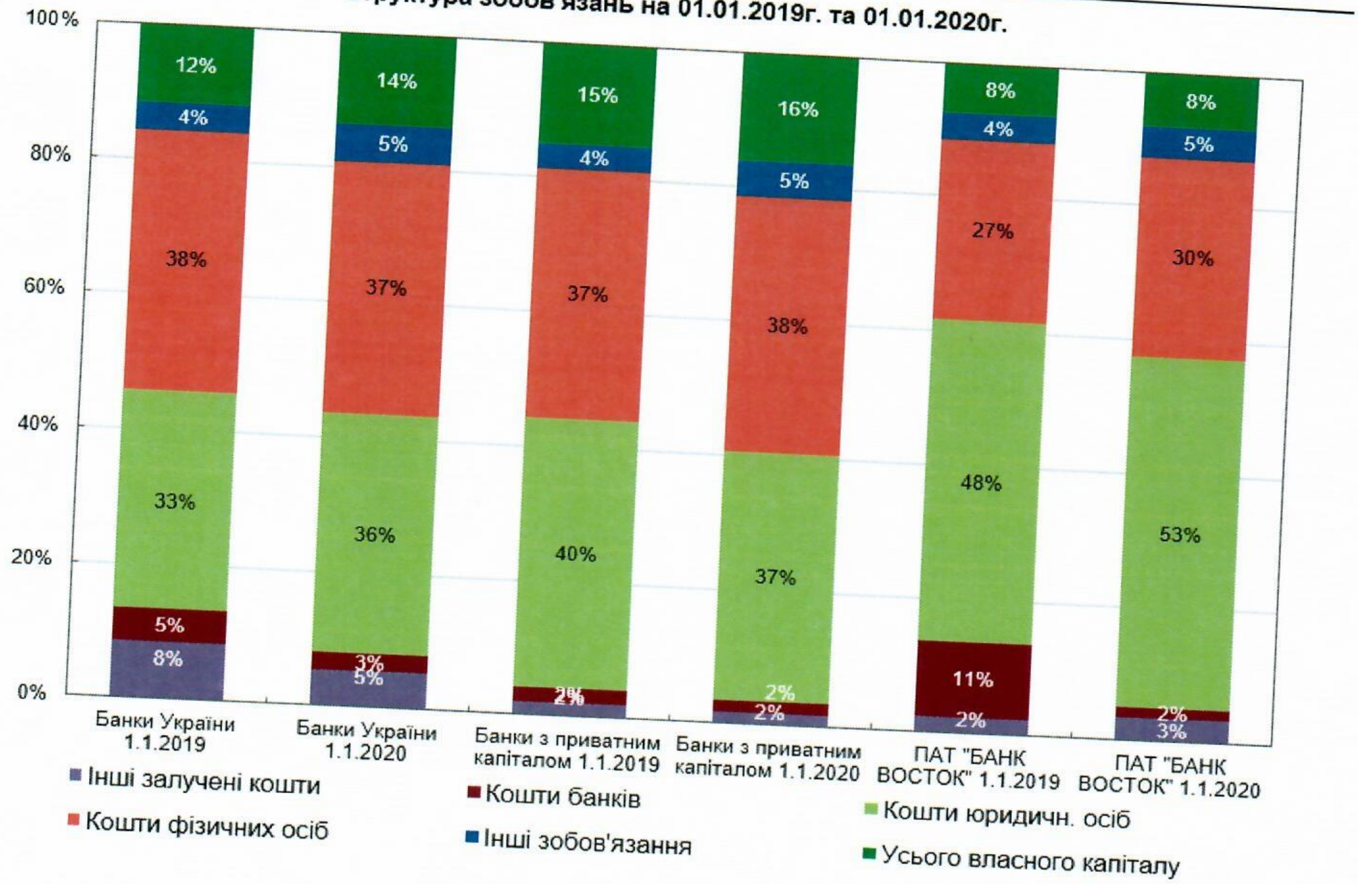
- Group I: Banks with a state-owned share (in which the state owns a share of over 75%) – as at 1 January 2010, there were 5 such banks;
- Group II: Banks of foreign banking groups (banks with the control shareholdings owned by foreign banking organizations) – 20 banks;
- Group III: Banks with private capital (banks in which ultimate holders of a significant interest are represented by one or several private investors who directly and/or indirectly own at least 50% in the bank's share capital) – 50 banks.

Based on those criteria, PJSC "Bank Vostok" refers to Group III of banks.

Benchmarking analysis of PJSC "BANK VOSTOK" as at 1 January 2020 based on aggregated performance of Ukrainian banks in the sector of solvent banks and banks with private capital



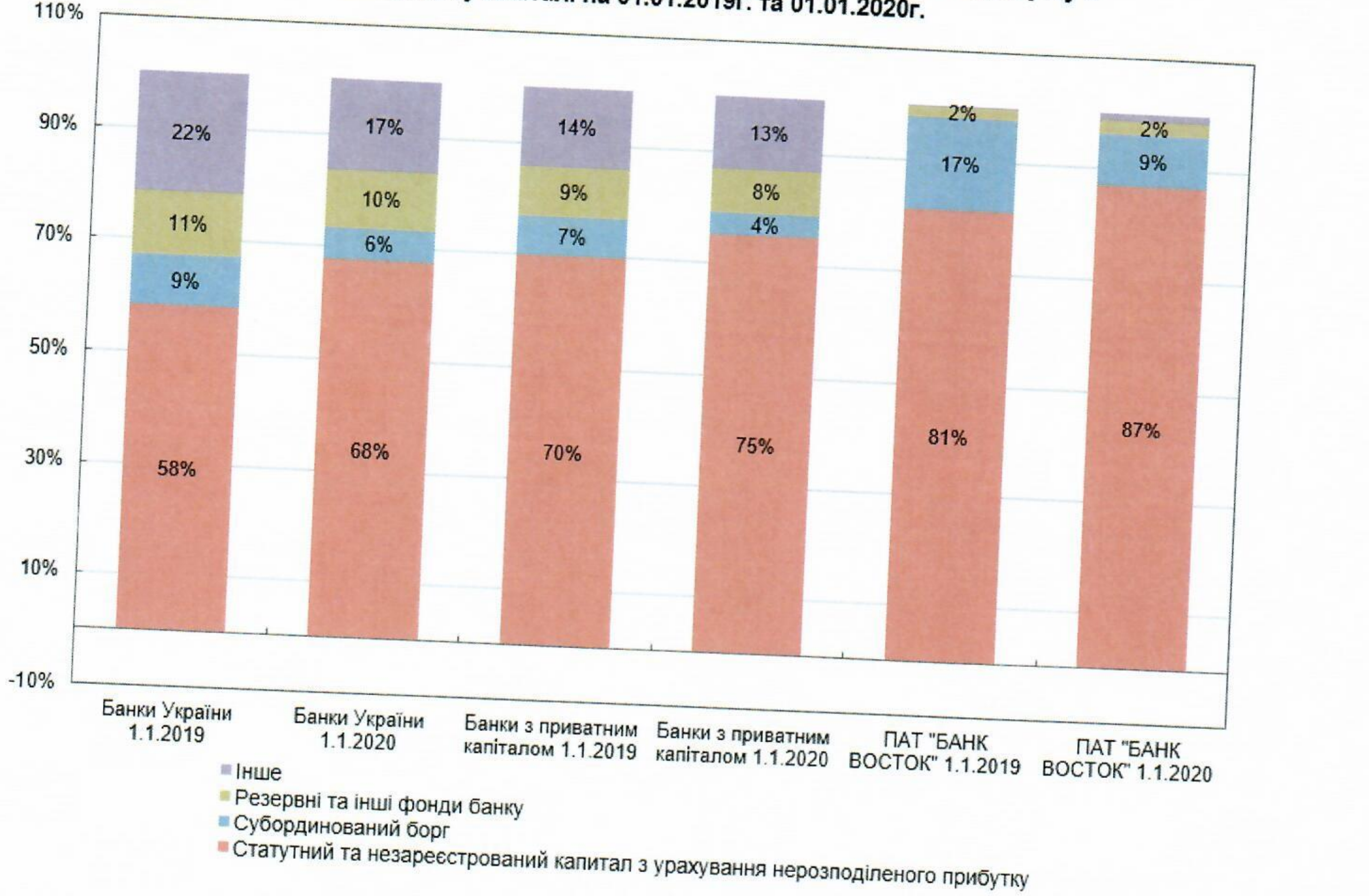
Структура зобов'язань на 01.01.2019г. та 01.01.2020г.



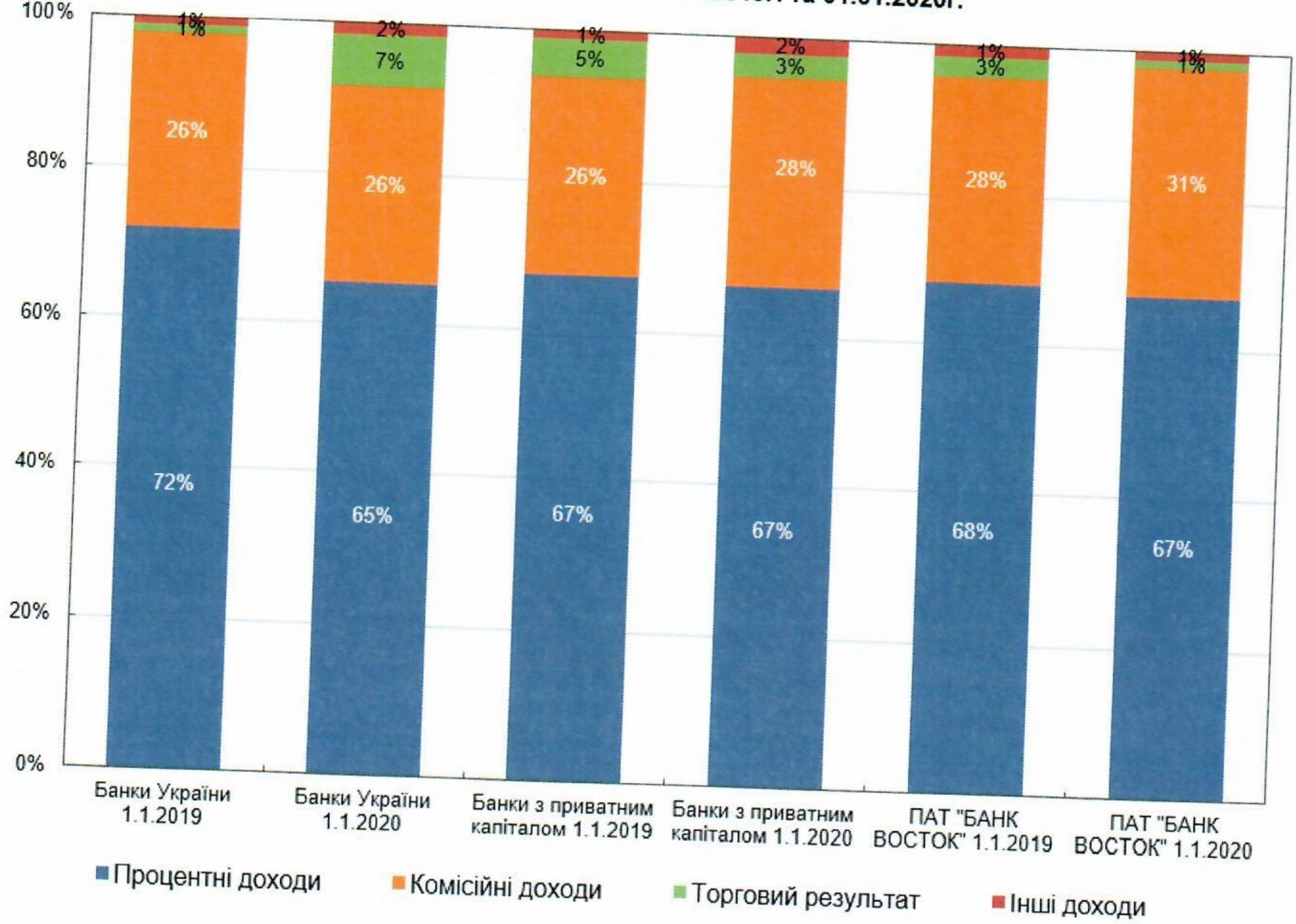
Частки та позиція Банку серед банків України в порівнянні за 12 місяців з початку року 2019р.

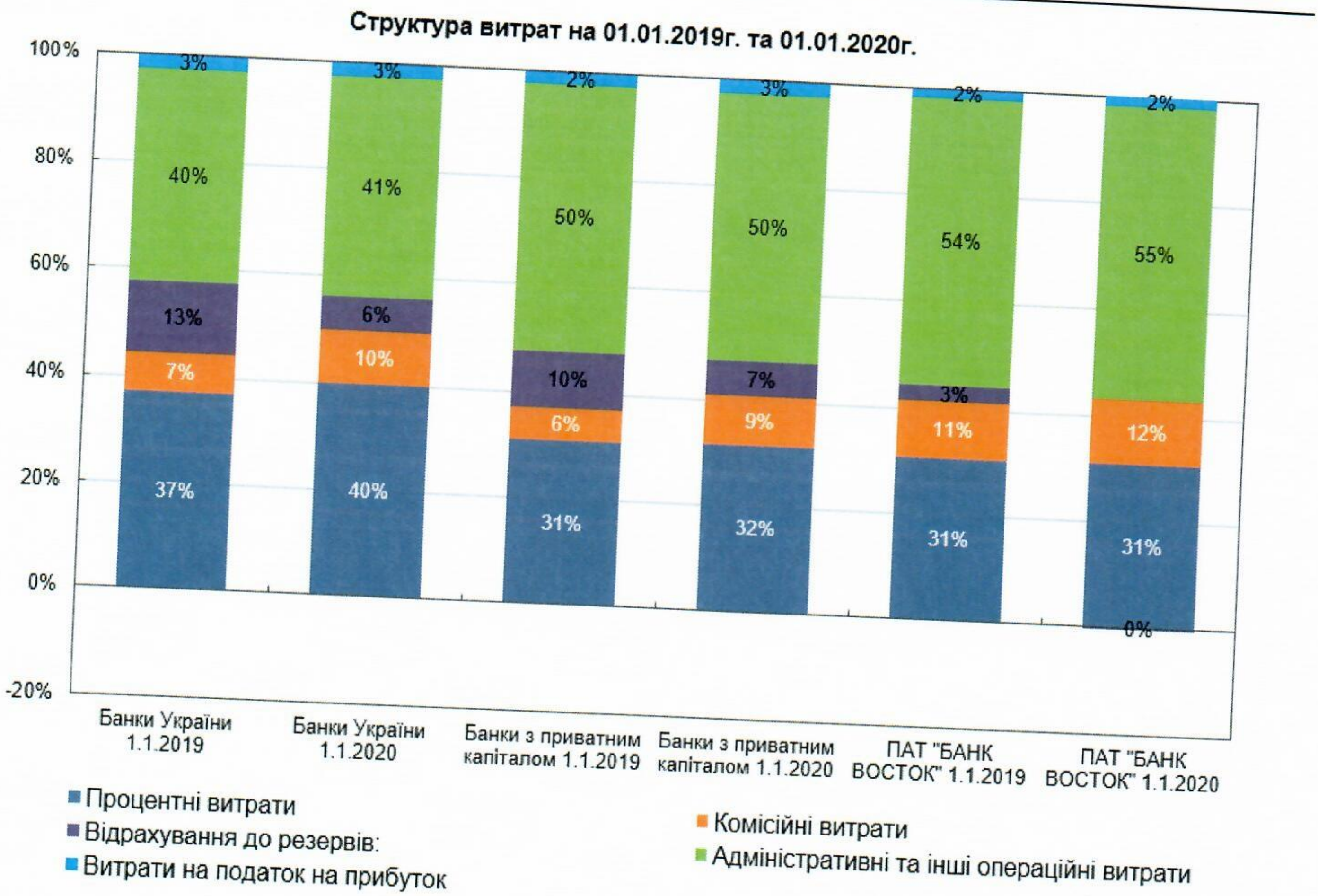
Показники	Дата	Сектор	Кредити ЮО	Кредити ФО	ЦП (за амортизованою собівартістю)	Кошти ЮО	Кошти ФО
Частка Банку на ринку	01.01.2019	Серед платоспроможних банків	1,4%	0,0%	1,1%	1,0%	0,5%
	01.01.2020	Серед платоспроможних банків	1,6%	0,1%	0,7%	1,1%	0,6%
	01.01.2019	Серед банків з приватним капіталом	7,6%	0,2%	5,5%	5,5%	3,4%
	01.01.2020	Серед банків з приватним капіталом	7,5%	0,3%	5,7%	6,8%	3,8%
Порівняння позиції Банку на ринку	01.01.2019	Серед платоспроможних банків	18	40	15	19	22
	01.01.2020	Серед платоспроможних банків	16	30	20	17	21
	За рік	Зміна позиції ("-" вище, "+" нижче)	-2	-10	5	-2	-1
	01.01.2019	Серед банків з приватним капіталом	4	23	4	6	9
	01.01.2020	Серед банків з приватним капіталом	4	17	5	4	8
	За рік	Зміна позиції ("-" вище, "+" нижче)	0	-6	1	-2	-1

Структура регулятивного капіталу з урахуванням нерозподіленого прибутку в Статутному капіталі на 01.01.2019г. та 01.01.2020г.



Структура доходів на 01.01.2019г. та 01.01.2020г.




Структура витрат на 01.01.2019г. та 01.01.2020г.
100%
80%
60%
40%
20%
0%
-20%
3%
40%
13%
7%
37%
3%
41%
6%
10%
40%
2%
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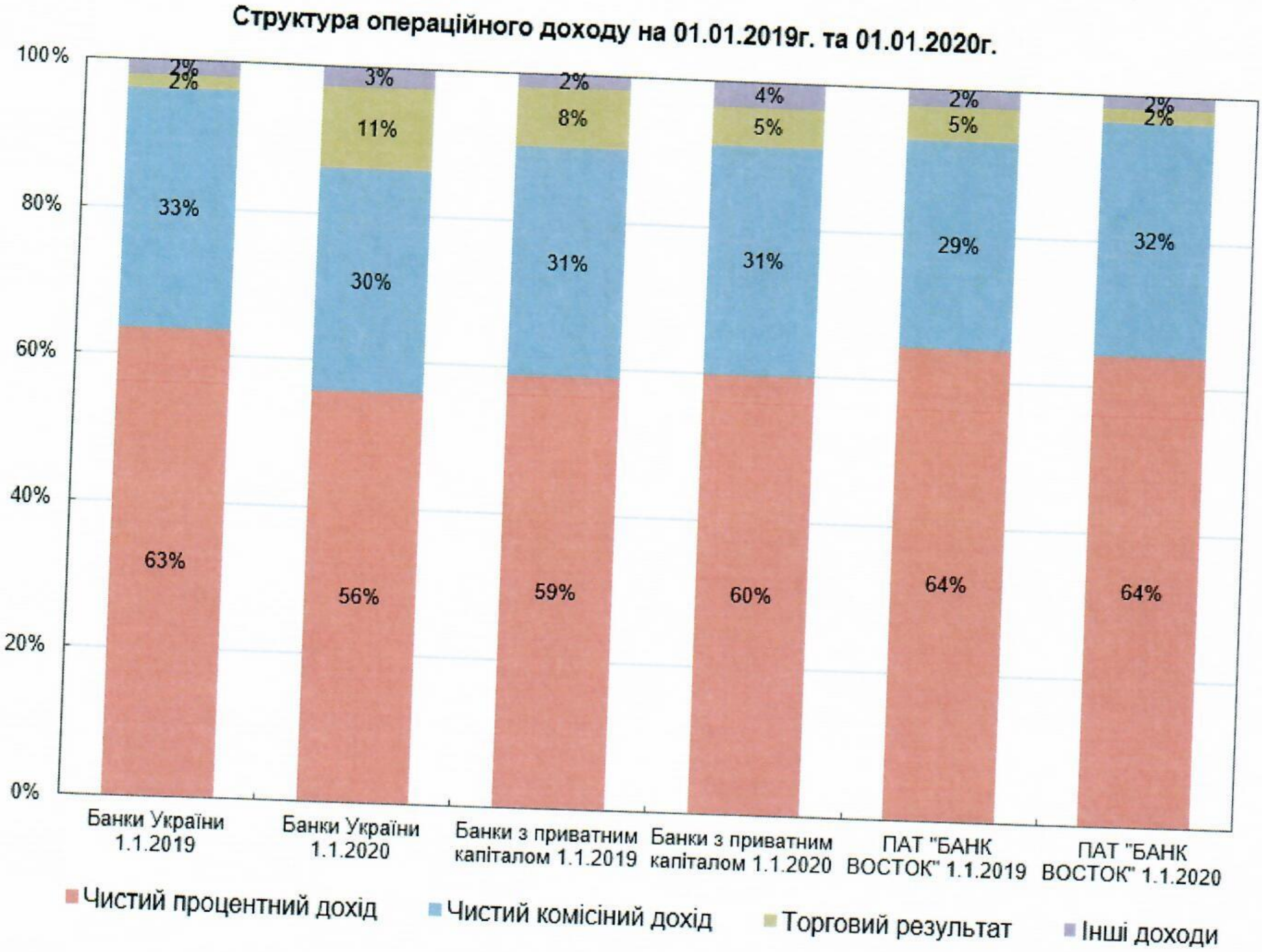
Банки України 1.1.2019
Банки України 1.1.2020
Банки з приватним капіталом 1.1.2019
Банки з приватним капіталом 1.1.2020
ПАТ "БАНК ВОСТОК" 1.1.2019
ПАТ "БАНК ВОСТОК" 1.1.2020
Процентні витрати
Відрахування до резервів:
Витрати на податок на прибуток
Комісійні витрати
Адміністративні та інші операційні витрати


Структура операційного доходу на 01.01.2019г. та 01.01.2020г.
100%
80%
60%
40%
20%
0%
2%
2%
33%
63%
3%
11%
30%
56%
2%
8%
31%
59%
4%
5%
31%
60%
2%
5%
29%
64%
2%
2%
32%
64%
Банки України 1.1.2019
Банки України 1.1.2020
Банки з приватним капіталом 1.1.2019
Банки з приватним капіталом 1.1.2020
ПАТ "БАНК ВОСТОК" 1.1.2019
ПАТ "БАНК ВОСТОК" 1.1.2020
Чистий процентний дохід
Чистий комісіний дохід
Торговий результат
Інші доходи

The Bank tries not only to preserve the created customer base, but also attract new customers. In this connection, using a principle of versatility, the Bank attracts for servicing, alongside with large corporate companies, representatives of small and medium business and individuals. Thus, it ensures for comprehensive servicing the sphere of consumer interests of the Bank's customers and their partners.

Number of customers	**1 January 2018**	**1 January 2019**	**1 January 2020**
Legal entities	11,061	13,232	15,161
Individuals	244,730	275,769	340,768
Total	**255,791**	**289,001**	**355,929**

Cash of individuals attracted to current and deposit accounts made up, as at the reporting date, 30% of liabilities, which was by 4% higher than at the beginning of the year.

Cash of legal entities attracted to current and deposit accounts made up, as at the reporting date, 53% of liabilities, which was by 5% lower than at the beginning of the year.

For the reporting period, no significant changes occurred in the structure of the Bank's assets. Assets of the Bank were formed in accordance with the dynamics of current accounts of the Bank's counterparties, the effect of seasonal fluctuations in foreign exchange rates, as well as borrowed funds from international partners. At the end of the reporting period, a share of loans to customers amounted to 62% of assets, which was by 10% lower than the same indicator at the beginning of the year.

The Bank selects objects for its lending operations on the basis of a strict selection of borrowers, a detailed analysis of credit and investment risks, profitability and security of the agreements offered for lending. In shaping its loan portfolio, the Bank always adheres to strict conservative credit policies that envisage for creating a profitable, liquid, and diversified loan portfolio agreed by the terms of granting cash and resource base.

The Bank has proved once again its active position in the market of banking services, which is supported by a constant growth in market ratings under key performance indicators of banks. The increased share capital for the reporting period has shaped the structure in which the share capital made up 72% of the Bank's equity, which is the factor that evidences of the growth in reliability and improved stability of the Bank.

Performance indicators of PJSC "BANK VOSTOK"

Indicators	**31 December 2018**	**31 December 2019**
Financial result, UAH thousand	122,104	165,088
Return on assets, %	1.39	1.65
Return on equity (ROE), %	18.52	20.69
Net interest income, before impairment losses/(reversal), on interest-bearing assets, UAH thousand	571,974	655,498
Net interest margin, %	6.51	6.54

Achievement of targeted indicators by balance sheet items of the Bank planned for 2019

In Ukrainian Hryvnias and in thousands

Indicators	Actual	Planned	Difference
Assets			
Cash and cash equivalents	893,484	750,000	143,484
Balances with the National Bank of Ukraine	407,234	500,000	(92,766)
Due from other banks	819,566	1,750,000	(930,434)
Loans and advances to customers	6,523,854	6,896,000	(372,146)
Investment securities available for sale	421,012	-	421,012
Investment securities measured at amortized cost	1,191,563	-	1,191,563
Deferred tax assets	2,494	5,000	(2,506)
Premises, equipment, and intangible assets	139,234	126,600	12,634
Right-of-use assets	75,430	-	75,430
Other financial and non-financial assets	217,012	290,000	(72,988)
Total assets	**10,690,883**	**10,317,600**	**373,283**
Liabilities			
Due to other banks	216,421	1,351,000	(1,134,579)
Current accounts	6,454,700	4,890,000	1,564,700
Deposits	2,500,114	2,550,000	(49,886)
Other borrowed funds	355,854	449,000	(93,146)
Current income tax liabilities	12,096	3,000	9,096
Lease liabilities	73,752	-	73,752
Other financial and non-financial liabilities	99,825	95,786	4,039
Subordinated debt	92,455	148,500	(56,045)
Total liabilities	**9,805,217**	**9,487,286**	**317,931**
Equity			
Share capital	639,104	638,110	994
Additional capital [share premium]	(278)	(276)	(2)
Retained earnings	213,355	169,267	44,088
Reserve fund	23,218	23,213	5
Revaluation reserve for investment securities measured at fair value through other comprehensive income	10,267	-	10,267
Total equity	**885,666**	**830,314**	**55,352**
Total liabilities and equity	**10, 690,926**	**10,317,600**	**373,326**

Achievement of targeted indicators by income/expense items of the Bank planned for 2019

In Ukrainian Hryvnias and in thousands

Indicators	Actual	Planned	Difference
Interest income	1,160,417	1,120,783	39,634
Interest expense	(504,919)	(424,774)	(80,145)
Net interest income before impairment losses on interest-bearing assets	**655,498**	**696,009**	**(40,511)**
Effect of initial recognition of interest-bearing assets	26,459	12,000	14,459
Impairment losses on interest-bearing assets	8,053	(70,000)	78,053
Net interest income	**690,010**	**638,009**	**52,001**
Services and commission income	537,377	483,640	53,737
Services and commission expense	(204,731)	(170,000)	(34,731)
Net gain on transactions with derivative financial instruments	16,177	9,000	7,177
Net gain on foreign exchange operations	46,125	38,000	8,125
Net gain/(loss) on foreign currency revaluation	(43,762)	3,000	(46,762)
Gain on initial recognition of financial liabilities at other than market interest rates	21,231	-	21,231
Net loss on de-recognition of financial instruments measured at amortized cost	(23,349)	(14,000)	(9,349)
Net loss on changes in reserves on other financial assets/liabilities	(99)	-	(99)
Other operating income	19,438	28,000	(8,562)
Net non-interest income	**368,407**	**377,640**	**(9,233)**
Administrative and other operating expense	(855,840)	(865,709)	9,869
Profit before income tax	**202,577**	**149,940**	**52,637**
Income taxes	(37,489)	(29,940)	(7,549)
Profit for the year	**165,088**	**120,000**	**45,088**

Servicing corporate customers

With its corporate business, the Bank sees itself as the closest partner for customers. By possessing a highly professional team, the Bank renders to its customers a full range of banking services, from documentary to cash settlement services. The development strategy in corporate segment presupposes considering specific needs of customers related to their industry and other special features of activities. A special attention in the work with corporate customers is given to such industries as trade (especially retail), agriculture, and shipping. The major segment of the Bank's customers is small and medium business.

Based on the performance for 2019, corporate business of the Bank continued to grow its base of resource generating clients. A decisive factor considered in selecting customers by the Bank refers to applying a flexible and individual approach in servicing, as well as a responsible attitude to challenges that the market poses to customers and the Bank.

Based on the performance for 12 months of 2019, the volume of income on foreign exchange operations remained at a stable high level and reached its maximum in July in the amount of UAH 8,547 thousand, besides, average monthly revenue in 2019 amounted to UAH 7,032 thousand.

Compared to 2018, revenue from foreign exchange operations grew from UAH 70,259 thousand to UAH 84,379 thousand, with the growth for 2019 amounting to 20%.

Cash collection and transportation of valuables

In 2019, the Bank actively increased its volumes in cash collection services. The unit has 12 units of specialized vehicles. Staff of the service amounted to 37 employees, with the services rendered in the cities of Kyiv, Odesa, Chornomorsk, Mykolaiv, Kharkiv, Sumy.

Services on transportation of cash and valuables of the Bank are used by:

- 446 sales points of the Bank's customers (increase by 15.8% compared to 2018);
- 27 branches (increase by 22.7% compared to 2018);
- 48 ATMs (increase by 77.7% compared to 2018);
- 34 payment terminals (decrease by 2.8% compared to 2018).

Collected sales revenues delivered to the Bank during 2019 amounted to UAH 14,284 million.

Possessing modern safety facilities, qualified personnel, and own fleet of specialized motor vehicles equipped with required communication means and enjoying a long-term cooperation with the state security service, the Bank provides to its customers all types of cash collection services and transportation of valuables with full legal liability for their safekeeping.

For the reporting period, the Bank's customers were provided the following cash collection services:

- Collecting cash;
- Delivering cash and other valuables from the Bank's cash office to a destination point at a customer's request;
- Delivering fractional coins;
- Transporting, storing, and returning cash of customers;
- Collecting cash of organizations and entities without opening an account with the Bank;
- Collecting cash from ATMs and self-servicing terminals;
- Interbank transportations;
- Services on transporting valuables to other banks.

Cost of services to customers is determined with reference to specific features of entities' operations, volumes of cash to be transported, and location of the organization.

The Bank's services and commission income on cash collection services for 2019 amounted to UAH 6,003 thousand.

Monetary turnover

For 2019, the Bank sold cash to other banks:

- UAH in the amount of 11,516.6 million;
- USD – 10.9 million;
- EUR – 2.9 million;
- GBP – 0.2 million
- RUB – 4.2 million.

Transported to the NBU – UAH 6,114.0 million.

Services and commission income on sales of cash amounted to UAH 7,255.6 thousand.

Services and commission income on sales of fractional coins amounted to UAH 3,252.1 thousand.

Retail business

Cash and settlement services

As at 31 December 2019, the Bank had 409,766 current accounts opened, of which 398,410 – card accounts of individuals. Average daily balance of cash on current accounts per year amounted to UAH 1,068 million, including on card accounts – UAH 886.5 million. In the structure of liabilities to individuals, cash balances on current accounts amounted to 39%.

For 2019, cash and settlement services to individuals earned fees and commissions in the amount of almost UAH 25.7 million.

Payment card operations

A major direction of the Bank's development is traditional classical banking, with an accent of business development using banking payment cards, based on the joint project of "Vlasnyi Rakhunok" ("Own Account") loyalty program. New products and processes in servicing customers are implemented by the Bank via traditional and alternative channels of prvising financial products and services.

The Bank continuously analyzes and studies peculiar features of operations and location of its customers, with the purpose of maximum customization of its services to customers' needs.

The Bank has card products in place that consider specific features of regions and present needs: "Pension Program", "Social Program", "Your Payroll Card", "Sailor's Card", "IT Specialist" Card", "Green Theater's Friend" Card, contactless payment cards with the help of smartphone, Visa Signature travel card, "Vlasnyi Rakhunok" ("Own Account") card, Vlasnyi Rakhunok Premium Card, Vlasnyi Rakhunok Vilnyi (Free) Card, Convenient Prepaid Card, Net.Card, "Zruchno Snimaty" (Convenient to Withdraw) Card, and "Zruchno Platyty" (Convenient to Pay) Card.

As at 31 December 2019, the Bank entered into 3,176 payroll projects, of which 2,631 are serviced.

During 2019, the Bank attracted for servicing 763 projects, with the gain amounting to 40.85% of total existing projects as at 31 December 2018.

Total number of payroll cards issued by the Bank as at 31 December 2019 amounted to 206,862 units, during 2019, there was both a growth in the number of active cards of corporate employees serviced under payroll projects (growth amounted to 42,855 units) and increase in average monthly balances on the accounts of those customers.

In 2019, the Bank successfully completed the work within the program on transferring payment cards with magnetic tape to chip contactless ones. As at 31 December 2019, all banking payment cards issued under payroll service contracts were chip and contactless.

As at 31 December 2019, the Bank's infrastructure on issuing cash had 57 ATMs and 93 POS-terminals functioning.

The year of 2019 was successful for developing a project of fare payment using the contactless technology in Odesa funicular.

During 2019, the project of Prostopay (jointly with PROSTOFOOD on payment using QR-code under coffee and snacks in vending machines) gained momentum. During 2019, the volume of transactions amounted to UAH 6.1 million, and the number of transactions – 379,779 units.

On 3 December 2018, PJSC "Bank Vostok" became a participant (as a bank acquirer) in the first innovation project, jointly with Mastercard International and Silpo, on payment for products with the help of QR-code. During 2019, the volume of transactions amounted to UAH 356.9 million, and the number of transactions – 2,452,624 units.

In the middle of 2019, PJSC "Bank Vostok" launched the project, jointly with Mastercard International and Fora, on payment for products with the help of QR-code. During 2019, the volume of transactions amounted to UAH 9.7 million, and the number of transactions – 99,867 units.

On 28 August 2019, PJSC "Bank Vostok" launched a chat-bot in Viber and Telegram.

The support of customers in chat-bot is performed day and night and envisages for both continuous communication with the Bank and the support service.

The chat-bot helps:

- Resolving issues online through the support service;
- Transferring cash to other cards of PJSC "Bank Vostok";
- Replenishing a mobile account;
- Inquiring a current balance and history of transactions;
- Changing the card settings;
- Finding the nearest outlet or ATM.

During 2019, a trend is observed on the decreased performance of self-service machines. This is explained by the fact that users apply more and more mobile applications and web-resources to pay for different services.

International cash transfers

The Bank actively provides services to individuals on sending and paying cash transfers under systems of international cash transfers:

- Western Union (WU): transfer currencies – UAH, USD, EUR, RUB;
- MoneyGram (MG): transfer currencies – USD, EUR;
- Welsend: transfer currencies – UAH, USD, EUR, RUB;
- RIA: transfer currencies – USD, EUR;
- Shvydka Kopiika: transfer currency – UAH.

To attract customers and receive additional services and commission income, the Bank works on expanding a list of transfer systems with which the Bank cooperates. During 2019, the Bank worked on launching the transfer system of Oshchadbank, "Shvydka Kopiika", via cash offices of the Bank. For 2020, it is planned to conclude an agreement with the transfer system of PrivatBank, Privat Money.

Based on the performance of 2019, total volume of services and commission income received by the Bank on cash transfers amounted to UAH 4.4 million.

Acceptance of utility payments

To increase services and commission income, during 2019, the Bank continued working on servicing the existing and entering into new agreements on accepting utility payments.

Total volume of fees and commissions on acceptance of utility payments for 2019 amounted to UAH 15.3 million.

Individual safes

The Bank actively renders services on leasing out individual safes to its customers.

As at the end of 2019, the service on leasing out individual safes was available in Odesa, Kyiv, Dnipro, Mykolaiv, Poltava, Kharkiv, Lviv, Cherkasy, and Kryvyi Rih.

Total volume of services and commission income on leasing out individual safes for 2019 amounted to UAH 8,274 thousand.

Servicing pension and social accounts

Based on the tender won on servicing pension and social accounts, during 2019, the Bank continued cooperating with pension fund agencies and departments of labor and social policies in the regions where the Bank's outlets are presented.

During 2019, the Bank opened 345 social accounts, 102 pension accounts, and 46 employment center accounts.

Deposits

As at 31 December 2019, the Bank had the following deposit programs for the Bank's individual customers:

- Deposit "Maksymalnyi" – for the customers interested in receiving maximum income;
- Deposit "Premialnyi" – for the customers interested in receiving monthly interest;
- Deposit "Skarbnytsia" – for the customers interested in receiving monthly interest and replenishing the deposit during the whole life of the agreement;
- Deposit "Pensiinyi" – developed for the customers of pension age, it envisages for a possibility of replenishing the deposit and receiving monthly interest;
- Campaign "Do Dnia Narodzhennia" ("To Birthday Date") – a loyalty program for customers that envisages for additional 1% to Deposit "Maksymalnyi" for the period of 6 months on the birthday date or during 14 days after it.

As at 31 December 2019, the deposit portfolio of individuals amounted to UAH 2.0 billion.

Granting loans to individuals

- Loans to payroll card holders – the Bank opens on the payroll card a credit limit – overdraft;
- Loans to sailors – lending to sailors who make on sails;
- Loans to IT specialists – the Bank grants loans to IT specialists who have a current account with the Bank. Without a certificate of income and collateral.

Documentary transactions

In Ukrainian Hryvnias and in thousands

Indicators	31 December 2018	31 December 2019
Portfolio of guarantees and letters of credit	469,927	458,063
Income received	15,761	17,700

Correspondent relations

In 2019, the Bank continued to cooperate with foreign and domestic financial institutions by ensuring for its customers additional possibilities on receiving high quality banking services.

As at 31 December 2019, the Bank had 43 correspondent accounts of NOSTRO type opened in 15 banks, both largest foreign banks of the world: THE BANK OF NEW YORK MELLON USA, Raiffeisen Bank International AG AUSTRIA, UNICREDIT BANK AG GERMANY, and Ukrainian financial institutions: JSC "Ukreximbank", JSC "Raiffeisen Bank Aval", PJSC "Citibank", PJSC JSB "UKRGAZBANK", JSC "Oshchadbank". The Bank makes payments in 10 currencies, which allows the Bank's customers making settlements on foreign economic contracts in the shortest possible time, with conversion to 125 currencies of the world.

As at 31 December 2019, the Bank had 9 correspondent accounts of LORO type opened for two banks.

Depository activities

The Bank, pursuant to the Licenses issued by the National Commission for Securities and Stock Market (the "NCSSM"), performs the following types of depository activities:

- Depository activities of a depository institution;
- Storage of assets under collective investment schemes.

The Bank is a deponent of the National Depository of Ukraine and the NBU's Depository, as well as a participant of the Professional Association of Registrars and Depositors.

The Bank is entitled to perform the whole range of depository activities with securities. Depository Operations Department has put into operation and maintains the Comprehensive System of Data Protection in Information and Telecommunication System ("CSDP ITS") of the depository institution that has received the Certificate in accordance with the requirements of the Administration of the State Service for Special Communication of Ukraine.

The bank consistently participates in the NBU's tenders on placement of short-term deposit certificates issued by the National Bank of Ukraine.

Trading in securities

The Bank has licenses of a securities trader under the following types of activities: dealership and brokerage activities.

The Bank participates in tenders held by PJSC "Ukrainian Stock Exchange" and PJSC "Stock Exchange PFTS" and is a client of PJSC "Settlement Center for Servicing Contracts in Financial Markets" that makes settlements on exchange operations and transactions with government securities. Also, the Bank is a participant of SRO "Professional Association of Capital Markets and Derivatives".

During 2019, the Bank held in its portfolio coupon and discount DGLBs in the national and foreign currencies. During 2019, the Bank performed short-term placements (for the periods from 1 to 14 days) of free funds in the national currency in deposit certificates issued by the NBU.

Issuer's transactions

In April 2019, the Bank prepared and published the Annual Report of Securities Issuer and, during the year, prepared and published quarterly reports and, on a non-recurring basis, information about the issuer's activities.

Pursuant to the Shareholder's Decision # 3 dated 25 April 2019, the Bank's statutory capital was increased by UAH 115,994 thousand to the total amount of UAH 639,104 thousand through the increase in the nominal value of the Bank's shares by UAH 37.74 to the total value of UAH 207.94 per share.

On 25 July 2019, the National Commission for Securities and Stock Market registered the issue of the Bank's shares at par value of UAH 207.94 per share for the total amount of UAH 639,104 thousand.

Information about other services rendered by the auditing entity, other than statutory audit services

The remuneration amount for other services rendered by the auditing entity, other than statutory audit services, amounted to UAH 2,264,497.

Report on Corporate Governance of PJSC "BANK VOSTOK" (in accordance with the requirements of Art. 40-1 of the Law of Ukraine "On Securities and Stock Market")

Report on corporate governance of PJSC "BANK VOSTOK" prepared in accordance with the requirements of Art. 40-1 of the Law of Ukraine "On Securities and Stock Market" and Provision on Disclosure of Information by Securities Issuers as approved by Resolution of the National Commission for Securities and Stock Market of Ukraine # 2826 dated 3 December 2013 (as subsequently amended) is provided on the Bank's site at: https://bankvostok.com.ua/public.

Signed on behalf of the Management Board of PJSC "BANK VOSTOK" on 29 April 2020.

Morokhovskyi, Vadym Viktorovych,
Chairman of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant