

PJSC “BANK VOSTOK”

Management Report, Financial Statements and
Independent Auditor’s Report for the Year Ended
31 December 2020

PJSC “BANK VOSTOK”

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and 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" (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the financial statements requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 Matter

Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter.

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

Allowances for expected credit losses (“ECLs”) on loans to customers assessed on an individual basis

Allowances for expected credit losses are calculated on a collective basis for loans to customers with similar risk characteristics and on an individual basis for significant loans to customers.

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 applied by management in determining the expected future cash flows based on the scenarios related to the loans the allowance for which is assessed on an individual basis are judgments and estimates in respect of projected revenues of borrowers, discount periods, and probable scenarios for estimated future cash flows.

Assessment of allowance for expected credit losses on loans to customers assessed on an individual basis was determined to be a key audit matter due to the subjective character of certain judgments and estimates used by the Bank’s management, including the impact of COVID-19, and a significant balance of corresponding loans to customers. Details on the use of judgments, estimates, and assumptions are provided in Notes 4, 5 and 27.

Our audit procedures included the following:

- Updating understanding of the Bank’s processes and control procedures for determination and assessment of scenarios related to estimated cash flows and probabilities attached to them in respect of loans assessed on an individual basis.
- We independently assessed the appropriateness of methodologies applied in calculating allowances for expected credit losses in terms of their compliance with accounting standards and market practices. We assessed the appropriateness of management’s judgments, in particular regarding projected revenues of borrowers, discount period, and probable scenarios for estimated future cash flows, including the impact of COVID-19 on the judgments used, and performed alternative calculations of discounted cash flows taking into account appropriate internal and external historical information and forecast expectations. We compared the obtained results against calculations of management.
- We checked the completeness and accuracy of relevant disclosures to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management report, which also includes information on corporate governance (but does not include the financial statements and our auditor’s report thereon), the Securities issuer’s annual information (that includes Corporate governance report), which we obtained prior to 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Law on accounting and financial reporting, and for such internal control as management determines is necessary to enable the preparation of 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, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

We have been appointed as an auditor of the Bank by the Supervisory Board's meeting on 25 September 2020. 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 the Audit Committee.

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

Pursuant to the requirements of Article IV paragraph 11 of the Instruction on the procedure for preparation and publication of financial statements of Ukrainian banks approved by the Resolution of the Board of the National Bank of Ukraine No. 373 dated 24 October 2011 (with amendments) ("Instruction No. 373"), we report the following:

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

Name: Limited Liability Company "Deloitte & Touche Ukrainian Services Company".

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

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

LLC "Deloitte & Touche USPC"

Certified Auditor



Natalia Samoilova

Auditor's Certificate # 0202

Issued by the Audit Chamber of Ukraine on 24 December 2014

on the basis of Resolution of the Audit Chamber of Ukraine # 304/2

Registration Number in the Register of Auditors and Auditing Entities 102404

LLC "Deloitte & Touche Ukrainian Services Company"

48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

28 April 2021

PJSC "BANK VOSTOK"

Statement of financial position as at 31 December 2020 (in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	6	857,762	893,484
Balances with the National Bank of Ukraine	6	524,160	407,234
Due from other banks	7	2,076,893	819,566
Loans to customers	8, 32	7,021,936	6,523,854
Investment securities measured at fair value through other comprehensive income	9	1,768,651	421,012
Investment securities measured at amortized cost	10	3,501,147	1,191,563
Deferred tax assets	26	2,750	2,494
Premises, equipment, and intangible assets	11	138,748	139,234
Right-of-use assets	12, 32	61,314	75,430
Other financial assets	13, 32	277,614	190,389
Other non-financial assets	13, 32	26,295	26,623
TOTAL ASSETS		16,257,270	10,690,883
LIABILITIES			
Due to other banks	14, 32	79,986	216,421
Current accounts	15, 32	9,777,164	6,454,700
Deposits	15, 32	4,713,143	2,500,114
Lease liabilities	12, 32	59,947	73,752
Other borrowed funds	17	372,653	355,854
Other financial liabilities	16, 32	51,826	52,569
Other non-financial liabilities	16, 32	47,163	47,256
Current income tax liabilities		11,872	12,096
Subordinated debt	18, 32	111,740	92,455
TOTAL LIABILITIES		15,225,494	9,805,217
EQUITY			
Share capital	20	795,914	639,104
Unregistered share capital	20	46,041	-
Issue costs		(383)	(278)
Retained earnings		150,691	213,355
Reserve fund	20	31,501	23,218
Revaluation reserve for investment securities measured at fair value through other comprehensive income		8,012	10,267
TOTAL EQUITY		1,031,776	885,666
TOTAL LIABILITIES AND EQUITY		16,257,270	10,690,883

Authorized for issue by the Management Board and signed on its behalf on 28 April 2021.

Morokhovskiy, Vadym Viktorovych,
Chairman of the Management Board



Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020 (in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2020	For 12 months of 2019
Interest income	21, 32	1,149,144	1,160,417
Interest expense	21, 32	(475,825)	(504,919)
Net interest income before allowance for expected credit losses on interest-bearing assets		673,319	655,498
Effect of initial recognition of interest-bearing assets and liabilities at other than market rates		39,998	47,690
(Allowance)/recovery for the allowance for expected credit losses on interest-bearing assets		(25,286)	8,053
Net interest income		688,031	711,241
Services and commission income	22, 32	732,266	537,377
Services and commission expense	22, 32	(288,862)	(204,731)
Net gain on transactions with derivative financial instruments		2,291	16,177
Net gain on foreign exchange operations	32	49,357	46,125
Net gain/(loss) on foreign currency revaluation		18,502	(43,762)
Net loss on change in provisions for other financial assets/liabilities		(1,089)	(99)
Gain or loss on de-recognition of financial instruments	32	19,240	7,003
Gain or loss on modification of financial instruments	32	(44,588)	(30,352)
Other operating income	23	26,044	19,438
Net non-interest income		513,161	347,176
Staff related costs	24	(471,736)	(406,834)
Depreciation and amortization expenses	11,12	(121,862)	(96,607)
Administrative and other operating expenses	25, 32	(424,809)	(352,399)
Profit before income tax		182,785	202,577
Income taxes	26	(33,295)	(37,489)
PROFIT FOR THE YEAR		149,490	165,088
Other comprehensive income/(loss):			
Gain/(loss) on changes in fair value of investments in securities measured at fair value through other comprehensive income		(2,750)	12,517
Income taxes recorded directly in other comprehensive income		495	(2,253)
Other comprehensive income for the year		(2,255)	10,264
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		147,235	175,352
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)		48.64	53.71

Authorized for issue by the Management Board and signed on its behalf on 28 April 2021.

Morokhovskiy, Vadym Viktorovych,
Chairman of the Management Board



Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

Statement of changes in equity for the year ended 31 December 2020 (in Ukrainian Hryvnias and in thousands)

	Notes	Share capital	Unregistered 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 2019		523,110	-	(182)	3	17,108	170,371	710,410
Profit for the year		-	-	-	-	-	165,088	165,088
Loss 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	20	-	-	-	-	6,110	(6,110)	-
Increase in share capital at the cost of retained earnings	20	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
Profit for the year		-	-	-	-	-	149,490	149,490
Loss on changes in fair value of investments in securities measured at fair value through other comprehensive income		-	-	-	(2,750)	-	-	(2,750)
Income taxes recognized in other comprehensive income		-	-	-	495	-	-	495
Other comprehensive income		-	-	-	(2,255)	-	-	(2,255)
Total comprehensive income for 2020		-	-	-	(2,255)	-	149,490	147,235
Charges to reserve fund	20	-	-	-	-	8,283	(8,283)	-
Increase in share capital at the cost of retained earnings	20	156,810	-	-	-	-	(156,810)	-
Contributions on unregistered share capital	20	-	46,041	-	-	-	(46,041)	-
Issue costs		-	-	(105)	-	-	-	(105)
Gain or loss on adjustment of the value of financial instruments when contract terms and conditions on operations with shareholders change		-	-	-	-	-	(1,020)	(1,020)
Balance as at 31 December 2020		795,914	46,041	(383)	8,012	31,501	150,691	1,031,776

Authorized for issue by the Management Board and signed on its behalf on 28 April 2021.

Morokhovskiy, Vadym Viktorovych,
Chairman of the Management Board



Siuskova, Olena Petrivna,
Chief Accountant

PJSC “BANK VOSTOK”

Statement of cash flows for the year ended 31 December 2020 (in Ukrainian Hryvnias and in thousands)


	Notes	For 12 months of 2020	For 12 months of 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,147,182	1,118,859
Interest paid		(459,809)	(498,164)
Fees and commissions received		732,525	536,375
Fees and commissions paid		(297,234)	(197,859)
Gain on transactions with derivative financial instruments		9,257	16,177
Gain on foreign exchange operations		49,357	46,125
Other operating income received		25,856	19,438
Administrative and other operating expenses paid		(416,650)	(345,566)
Staff costs paid		(476,744)	(391,784)
Income taxes paid		(33,281)	(31,687)
Cash generated from operating activities before changes in operating assets and liabilities		280,459	271,914
<i>Net increase/(decrease) in:</i>			
- Due from other banks		281,738	(389,250)
- Loans to customers		102,602	(478,045)
- Other financial assets and other non-financial assets		(35,980)	(28,055)
<i>Net increase/(decrease) in:</i>			
- Due to other banks		(196,345)	(695,896)
- Current accounts		2,874,257	1,606,713
- Deposits		1,804,065	740,997
- Other financial liabilities and other non-financial liabilities		(15,639)	7,185
Net cash generated from operating activities		5,095,157	1,035,563
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises, equipment, and intangible assets		(74,207)	(125,327)
Purchase of investment securities measured at fair value through other comprehensive income		(1,567,510)	(407,720)
Proceeds on sale and repayment of investment securities measured at fair value through other comprehensive income		260,769	2,565
Purchase of investment securities measured at amortized cost		(170,515,000)	(71,085,685)
Proceeds on repayment of investment securities measured at amortized cost		168,200,000	70,709,222
Net cash used in investing activities		(3,695,948)	(906,945)

PJSC "BANK VOSTOK"

Statement of cash flows for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2020	For 12 months of 2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on other borrowed funds	19	-	213,732
Repayment of other borrowed funds	19	(53,714)	(11,360)
Repayment of funds borrowed on subordinated debt terms	19	-	(35,000)
Repayment of lease liabilities	19	(47,690)	(34,136)
Issue costs		(105)	(96)
Net cash (used in)/generated from financing activities		(101,509)	133,140
Effect of exchange rate changes on cash and cash equivalents		271,098	(178,926)
Net increase in cash and cash equivalents		1,568,798	82,832
Cash and cash equivalents at the beginning of the year	6	1,705,436	1,622,604
Cash and cash equivalents at the end of the year	6	3,274,234	1,705,436

Authorized for issue by the Management Board and signed on its behalf on 28 April 2021.


Morokhovskiy, Vadym Viktorovych,
Chairman of the Management Board




Siuskova, Olena Petrivna,
Chief Accountant

PJSC “BANK VOSTOK”

Notes to the financial statements for the year ended 31 December 2020 *(in Ukrainian Hryvnias and in thousands)*

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 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 2020 and 2019, 100% of the Bank’s shares were held by LLC “Vostok Capital”.

Ultimate beneficiary owners of the Bank are Mr. V. Kostelman, Mr. V. Morokhovskiy, and Ms. L. 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 2020, the Bank had 38 branches (31 December 2019: 40 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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
(in Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank

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

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

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

The degree of macroeconomic uncertainty in Ukraine in 2020 still remains high due to a significant amount of public debt scheduled for repayment in 2021, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the “IMF”).

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

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

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
(in Ukrainian Hryvnias and in thousands)

3. Adoption of new Standards and amendments thereto

New and amended IFRS that are effective for the current year. The following amendments to Standards and Interpretations have been applied by the Bank effective from 1 January 2020, but they have not had any material impact on the Bank’s operations and the financial statements:

- Amendments to IFRS 9 and IFRS 7 – Basic Interest Rate Reform.
- Amendments to IFRS 3 – Definition of a Business.
- Amendments to IAS 1 and IAS 8 – Definition of Material.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendment to IFRS 16 – COVID-19 related rent concessions. This amendment is obligatory for application for annual reporting periods beginning on or after 1 July 2020. It is applied retrospectively in accordance with IAS 8, but does not require the comparative data to be revised. The Bank has not applied this amendment.

The adoption of new Standards and Interpretations has not led to significant changes in the Bank’s accounting policies that would have an impact on the reporting data of the current and prior periods.

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:
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 – Interest Rate Benchmark Reform: Phase 2	1 January 2021
Amendments to IFRS 3 – Definition of a Business; Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 1, IFRS 9, IAS 41, and illustrative examples accompanying Annual Improvements to IFRS 2018-2020 cycles IFRS 16	1 January 2022
Amendments to IAS 1 – Classification of Liabilities as Short-Term or Long-Term	1 January 2023
IFRS 17	1 January 2023
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date to be determined

The new Standards listed in the table above are expected to have no material effect on the Bank’s operations.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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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”).

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

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.

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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

Recognition of difference between the fair value of financial instruments at initial recognition and the arrangement price in profit or loss. At the initial recognition of a financial instrument, the Bank recognizes profit or loss as the difference between the fair value of a financial asset or a financial liability and the contract price, if the effective interest rate under this instrument is higher than the market one. For financial instruments, the Bank sets and periodically revises underlying market rates, as well as relevant deviation ranges from underlying market rates. To set underlying basic rates, external information is used in respect of current interest rates under relevant banking transactions. In the event an estimated effective interest rate under the financial instrument, on initial recognition, differs from underlying market rates, with reference to relevant deviation ranges, the Bank recognizes this difference in profit or loss. The difference between the fair values of financial assets or financial liabilities and the cost of transactions with the Bank’s shareholders is recorded in equity and included in retained earnings (losses) as the total amount on disposal of the financial instrument.

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.

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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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, 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;

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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

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

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified 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 to customers;
- Investment securities;
- Other financial assets;
- Loan commitments.

No impairment loss is recognized on equity investments.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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 income is calculated on the net carrying amount (net of loss allowance for expected credit losses). Those assets are considered to be credit impaired.

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 “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.

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).

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.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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 27. 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 unlikelihood 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 27.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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.

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.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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.

Changes in accounting policies in respect of modification and de-recognition of financial assets. In 2020, the Bank amended its accounting policies in respect of modification and de-recognition of financial assets, in particular: in the event the modification of a financial asset is related to the revision of an interest rate to the market level and the contractual terms and conditions under this asset presuppose early repayment without significant penalties, such modifications also lead to de-recognition of the financial asset (as if it were independently repaid by the customer) and recognition of a new financial asset. The arm’s length level of the rate is determined by the Bank in accordance with the internal regulation “Methodology for Applying in PJSC “BANK VOSTOK” Market Interest Rates in Accounting for Lending and Depository Transactions”. The Bank applied changes in its accounting policies retrospectively. There was no effect on prior periods as a result of retrospective application of the amended accounting policies.

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.

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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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.

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.

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires that initial recognition of financial instruments be 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 transactions are disclosed in Note 32.

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Notes to the financial statements
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4. Summary of significant accounting policies (continued)

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.

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 the other income.

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. 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.

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Notes to the financial statements
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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.

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Notes to the financial statements
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4. Summary of significant accounting policies (continued)

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
Office and computer equipment	2-5
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.

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.

Right-of-use assets are assets representing a lessee's right to use an underlying asset during the lease term.

At the commencement date, the Bank measures the right-of-use asset at cost. The cost of the right-of-use asset comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the lessee; and (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, the Bank measures the right-of-use asset by applying a cost model, less any accumulated depreciation and any accumulated impairment losses, adjusted for any re-measurement of the lease liability. The Bank depreciates the right-of-use assets on a straight-line basis, with depreciation charges included administrative and other operating expenses. Depreciation period corresponds to a term of the lease liability.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Lease liabilities. At the commencement date, the Bank measures the lease liability at the present value of lease payments that are not paid at that date. The Bank discounts the lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses the lessee’s incremental borrowing rate. The Bank records lease liabilities separately in the statement of financial position, with interest on the lease liabilities recognized in interest income in the statement of profit or loss and other comprehensive income.

Lease term is a non-cancellable period during which the Bank has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

Lessee’s incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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.

PJSC “BANK VOSTOK”

Notes to the financial statements
for the year ended 31 December 2020 (continued)
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4. Summary of significant accounting policies (continued)

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).

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.

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

As at 31 December 2020 and 2019, major exchange rates established by the NBU that the Bank used in translating foreign currency denominated amounts were as follows:

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

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.

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 consistently 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:

Significant increase in credit risk. As explained in Note 4 to these financial statements, 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 27 for more details.

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 27 for more details on ECLs and Note 31 for more details on fair value measurement.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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5. Critical accounting estimates and judgments used in applying accounting policies (continued)

Key sources of estimation uncertainty. Listed below are key estimations that management has 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.

Determining and estimating scenarios of expected cash flows and their probabilities on loans to customers measured on an individual basis. In estimating the degree of expected 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. Information on fair value measurements is provided in Note 31.

6. Cash and cash equivalents

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

	31 December 2020	31 December 2019
Cash	857,762	893,484
Balances with the National Bank of Ukraine	524,160	407,234
Correspondent accounts with other banks (Note 7)	1,892,312	404,718
Total cash and cash equivalents	3,274,234	1,705,436

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

7. Due from other banks

	31 December 2020	31 December 2019
Correspondent accounts with other banks (Note 6)	1,897,760	406,910
Term deposits with other banks	184,602	416,218
Allowance for expected credit losses	(5,469)	(3,562)
Total due from other banks	2,076,893	819,566

Analysis by credit quality of amounts due from other banks as at 31 December 2020 was as follows:

	Correspondent accounts with other banks	Term deposits with other banks	Total
Stage 1			
A- to AA+ rated	1,611,025	183,793	1,794,818
BB- to BBB+ rated	264,083	104	264,187
B- to B+ rated	7,406	583	7,989
Unrated	11,574	122	11,696
Total on Stage 1	1,894,088	184,602	2,078,690
Allowance for expected credit losses (Stage 1)	(1,776)	(21)	(1,797)
Stage 3			
- Not expired	3,672	-	3,672
Total on Stage 3	3,672	-	3,672
Allowance for expected credit losses (Stage 3)	(3,672)	-	(3,672)
Total allowance for expected credit losses on due from other banks	(5,448)	(21)	(5,469)
Total due from other banks	1,892,312	184,581	2,076,893

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 2020, included in the category of “Unrated” were funds in the amount of UAH 11,696 thousand placed with the domestic banks that had no credit ratings assigned by international rating agencies.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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7. Due from other banks (continued)

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

	Correspondent accounts with other banks	Term deposits with other banks	Total
Stage 1			
A- 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)
Total 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

As at 31 December 2019, included in the category of “Unrated” were funds in the amount of UAH 189,542 thousand placed with the domestic banks that had no credit ratings assigned by international rating agencies.

As at 31 December 2020 and 2019, the Bank placed its funds, before allowance, on the accounts with 5 counterparty banks in the amount of UAH 2,076,077 thousand and UAH 812,565 thousand, or 99% and 99% of the total due from other banks, respectively.

Analysis of due from other banks by interest rates, as well as geographical concentration, foreign currency, and liquidity risks is presented in Note 27.

PJSC “BANK VOSTOK”

Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans to customers

As at 31 December 2020, total balance of the Bank’s loans to customers, before allowance for expected credit losses, consisted by 99.2% of loans to legal entities measured at amortized cost and by 0.8% of loans to individuals measured at amortized cost (31 December 2019: 98.5% and 1.5%, respectively).

Loans to customers were as follows:

	31 December 2020	31 December 2019
Loans to legal entities	7,196,848	6,660,634
Loans to individuals	58,817	103,683
Total loans to customers, before allowance for expected credit losses	7,255,665	6,764,317
Allowance for expected credit losses	(233,729)	(240,463)
Total loans to customers	7,021,936	6,523,854

Movements in allowance for expected credit losses on loans to customers for the year ended 31 December 2020 were as follows:

	Loans to legal entities	Loans to individuals	Total
Allowance for expected credit losses as at 31 December 2019	238,616	1,847	240,463
Allowance for expected credit losses during the year	10,473	1,890	12,363
Adjustment of allowance due to de-recognition of loans on Stage 3 and recognition of POCI loans	(17,788)	-	(17,788)
Loans sold/written off during the year	(1,186)	(292)	(1,478)
Interest adjustment	169	-	169
Allowance for expected credit losses as at 31 December 2020	230,284	3,445	233,729

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans to customers (continued)

Movements in allowance for expected credit losses on loans to customers for the year ended 31 December 2019 were as follows:

	Loans to legal entities	Loans to individuals	Total
Allowance for expected credit losses as at 31 December 2018	253,151	1,309	254,460
Allowance for expected credit losses during the year	(10,152)	691	(9,461)
Adjustment of allowance due to POCL loan repayment	6,225	-	6,225
Loans sold/written off during the year	(9,250)	(153)	(9,403)
Interest adjustment	(1,358)	-	(1,358)
Allowance for expected credit losses as at 31 December 2019	238,616	1,847	240,463

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

	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Trade	3,199,632	44	2,903,359	43
Agriculture, fishery, and food processing	1,029,898	14	1,011,662	15
Manufacturing	985,817	14	1,052,592	16
Transport and communication	769,790	11	606,643	9
Construction and real estate operations	421,649	6	597,164	9
Financial and investment operations	154,833	2	186,722	3
Tourist and hotel services, restaurant business	72,085	1	86,503	1
Loans to individuals	58,818	1	103,683	1
Other services	563,143	7	215,989	3
Total loans to customers, before allowance for expected credit losses	7,255,665	100	6,764,317	100

As at 31 December 2020, total gross value of the loans granted to top 10 borrowers of the Bank amounted to UAH 1,711,428 thousand (31 December 2019: UAH 1,520,129 thousand), or 24% of the total loan portfolio (31 December 2019: 22%). At the same time, as at 31 December 2020, exposures of top 10 borrowers were partly covered by the collateral of property rights to deposits in the amount of UAH 210,404 thousand (31 December 2019: UAH 225,931 thousand).

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans to customers (continued)

The following table summarizes the proportionate amount of collateralized loans to customers and not the fair value of collateral as at 31 December 2020:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	1,128,299	35,968	1,164,267
Loans collateralized by:			
- Residential real estate items	195,791	12,063	207,854
- Other real estate items	3,454,997	8,340	3,463,337
- Cash deposits	447,065	1,268	448,333
- Other assets	1,970,696	1,178	1,971,874
Total loans to customers, before allowance for expected credit losses	7,196,848	58,817	7,255,665

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, and other assets.

As at 31 December 2020, impaired loans and purchased or credit-impaired loans with gross carrying value of UAH 197,040 thousand (31 December 2019: UAH 210,742 thousand) were secured by the collateral represented mostly by real estate and other assets in the amount of UAH 183,147 thousand (31 December 2019: UAH 187,036 thousand), or 93% (31 December 2019: 89%).

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 2019 was as follows:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	1,030,418	39,405	1,069,823
Loans collateralized by:			
- Residential real estate items	153,065	35,838	188,903
- Other real estate items	2,737,039	25,934	2,762,973
- Cash deposits	450,510	799	451,309
- Other assets	2,289,602	1,707	2,291,309
Total loans to customers, before allowance for expected credit losses	6,660,634	103,683	6,764,317

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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8. Loans to customers (continued)

Analysis of loans by credit quality as at 31 December 2020 was as follows:

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not expired	6,374,168	44,913	6,419,081
- Past due less than 30 days	-	439	439
Total on Stage 1	6,374,168	45,352	6,419,520
Stage 2, loans with a significant increase in risk			
- Not expired	633,224	-	633,224
- Past due less than 30 days	5,660	-	5,660
- Past due from 31 to 90 days	1	220	221
Total on Stage 2, loans with a significant increase in risk	638,885	220	639,105
Stage 3, impaired loans			
- Not expired	127,188	50	127,238
- Past due less than 30 days	4,733	-	4,733
- Past due from 31 to 90 days	1,098	1	1,099
- Past due from 91 to 180 days	28,987	422	29,409
- Past due from 181 to 360 days	1,894	11,584	13,478
- Past due more than 360 days	-	1,188	1,188
Total on Stage 3, impaired loans	163,900	13,245	177,145
Purchased or originated credit impaired loans			
- Not expired	19,895	-	19,895
Total loans to customers, before allowance for expected credit losses	7,196,848	58,817	7,255,665
Allowance for expected credit losses	(230,284)	(3,445)	(233,729)
Total loans to customers	6,966,564	55,372	7,021,936

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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8. Loans to customers (continued)

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

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not expired	5,360,850	100,958	5,461,808
- Past due less than 30 days	-	445	445
Total on Stage 1	5,360,850	101,403	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	926	2,015
- Past due more than 360 days	105	801	906
Total on Stage 3, impaired loans	208,422	2,033	210,455
Purchased or originated credit impaired loans			
- Past due from 30 to 90 days	287	-	287
Total loans to customers, before allowance for expected credit losses	6,660,634	103,683	6,764,317
Allowance for expected credit losses	(238,616)	(1,847)	(240,463)
Total loans to customers	6,422,018	101,836	6,523,854

As at 31 December 2020, loans to customers with the gross carrying value of UAH 639,338 thousand (31 December 2019: UAH 480,994 thousand) were transferred as a collateral to secure for the borrowing obtained from WORLDBUSINESS CAPITAL, INC., USA (Notes 17, 29).

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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8. Loans to customers (continued)

Other information on loans to customers (a detailed analysis of movements in allowances for expected credit losses and their allocation by impairment stages) is provided in Note 27.

Analysis of loans to customers by interest rates, geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Balances on related party transactions are disclosed in Note 32.

9. Investment securities measured at fair value through other comprehensive income

	31 December 2020	31 December 2019
Domestic government loan bonds	1,543,122	421,012
Domestic municipal loan bonds	36,885	-
Bonds of foreign countries	188,644	-
Total investments securities measured at fair value through other comprehensive income	1,768,651	421,012

As at 31 December 2020, the Bank created an allowance for expected credit losses on investments securities measured at fair value through other comprehensive income in the amount of UAH 11,035 thousand (31 December 2019: no allowance for expected credit losses was created).

Analysis of securities by credit quality as at 31 December 2020 was as follows:

	Domestic government loan bonds	Domestic municipal loan bonds	Bonds of foreign countries	Total
Not past due				
A- to AA+ rated	-	-	86,011	86,011
BBB- to BBB+ rated	-	-	102,633	102,633
B- to B+ rated	1,543,122	36,885	-	1,580,007
Total securities measured at fair value through other comprehensive income	1,543,122	36,885	188,644	1,768,651

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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9. Investment securities measured at fair value through other comprehensive income (continued)

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

	Domestic government loan bonds	Total
Not past due		
B- to B+ rated	421,012	421,012
Total securities measured at fair value through other comprehensive income	421,012	421,012

Investments securities have no collateral.

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.

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 27. Fair values of investment securities measured at fair value through other comprehensive income are disclosed in Note 31.

10. Investment securities measured at amortized cost

	31 December 2020	31 December 2019
Deposit certificates issued by the NBU	3,501,147	1,121,909
Domestic government loan bonds	-	69,654
Total investment securities measured at amortized cost	3,501,147	1,191,563

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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10. Investment securities measured at amortized cost (continued)

Analysis of investment securities measured at amortized cost by credit quality as at 31 December 2020 was as follows:

	Deposit certificates issued by the NBU	Total
Not past due		
B- to B+ rated	3,501,147	3,501,147
Total not past due	3,501,147	3,501,147
Total investment securities measured at amortized cost	3,501,147	3,501,147

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

	Domestic government loan bonds	Deposit certificates issued by the NBU	Total
Not past due			
B- to B+ rated	69,654	1,121,909	1,191,563
Total not past due	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 interest rates, geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Fair values of investment securities measured at amortized cost are disclosed in Note 31.

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Notes to the financial statements
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11. Premises, equipment, and intangible assets

	Leasehold improve- ments	Vehicles	Office and computer equipment	Construction in progress	Total premises and equipment	Intangible assets	Total
Cost as at 1 January 2019	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 1 January 2019	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	25,592	227,742	2,509	286,491	59,344	345,835
Accumulated depreciation and amortization	(22,833)	(12,455)	(133,530)	-	(168,818)	(37,783)	(206,601)
Net book value as at 31 December 2019	7,815	13,137	94,212	2,509	117,673	21,561	139,234
Additions	5,163	2,715	37,416	3,190	48,484	24,213	72,697
Disposals	-	-	(108)	-	(108)	(1)	(109)
Depreciation and amortization charges	(5,337)	(4,288)	(49,088)	-	(58,713)	(14,361)	(73,074)
Net book value as at 31 December 2020	7,641	11,564	82,432	5,699	107,336	31,412	138,748
Cost as at 31 December 2020	34,228	27,794	263,883	5,699	331,604	83,550	415,154
Accumulated depreciation and amortization	(26,587)	(16,230)	(181,451)	-	(224,268)	(52,138)	(276,406)
Net book value as at 31 December 2020	7,641	11,564	82,432	5,699	107,336	31,412	138,748

As at 31 December 2020, fully depreciated and amortized assets continued to be used by the Bank amounted to UAH 149,219 thousand (31 December 2019: UAH 105,369 thousand).

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12. Right-of-use assets and lease liabilities

As at 31 December 2020, right-of-use assets comprised the following:

	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2020	115,006	614	115,620
Accumulated depreciation as at 1 January 2020	(39,926)	(264)	(40,190)
Additions	10,222	-	10,222
Modifications	27,697	251	27,948
Disposals	(3,392)	(106)	(3,498)
Depreciation charges	(48,538)	(250)	(48,788)
Net book value as at 31 December 2020	61,069	245	61,314

As at 31 December 2019, right-of-use assets comprised the following:

	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
Modifications	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

As at 31 December 2020 and 2019, average lease term on the Bank’s premises amounted to 3 years, without a possibility to extend the lease. The Bank has no possibility to repurchase lease items at the nominal value at the end of the lease term.

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12. Right-of-use assets and lease liabilities (continued)

The following lease liabilities were recognized in the statement of profit or loss and other comprehensive income:

	For 12 months of 2020	For 12 months of 2019
Depreciation of right-of-use assets	(48,788)	(40,190)
Interest expense on lease liabilities	(11,243)	(11,484)
Expense related to short-term leases	(508)	(1,120)
Expense related to leases of low-value underlying assets	(1,730)	(2,916)
Total effect on financial results	(62,269)	(55,710)

Movements of lease liabilities were as follows:

	For 12 months of 2020	For 12 months of 2019
Lease liabilities as at 1 January	73,752	69,208
Increase in lease liabilities	33,885	38,680
Interest accrued	11,243	11,484
Lease liabilities repaid (Note 19)	(58,933)	(45,620)
Lease liabilities as at 31 December	59,947	73,752

Lease liabilities based on maturities were as follows:

	31 December 2020	31 December 2019
Lease liabilities		
Up to one year	45,821	41,154
From one to two years	12,747	25,913
From two to three years	1,379	6,685
Total lease liabilities	59,947	73,752

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13. Other financial and non-financial assets

	31 December 2020	31 December 2019
<i>Other financial assets</i>		
Restricted cash	262,133	181,632
Other financial assets	15,481	8,757
Total other financial assets	277,614	190,389
<i>Other non-financial assets</i>		
Deferred expense	12,939	14,671
Accounts receivable on assets and services purchased	10,027	8,996
Repossessed collateral by the Bank	2,073	2,073
Taxes prepaid, other than income taxes	562	180
Other assets	694	703
Total other non-financial assets	26,295	26,623
Total other financial and non-financial assets	303,909	217,012

Restricted cash comprises the guarantee cover placed by the Bank within payment systems of 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, geographical concentration, foreign currency, and liquidity risks is provided in Note 27.

14. Due to other banks

	31 December 2020	31 December 2019
Correspondent accounts and overnight deposits of other banks	79,986	64,211
Short-term borrowings received	-	86,118
Term deposits	-	66,092
Total due to other banks	79,986	216,421

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14. Due to other banks (continued)

As at 31 December 2020, the largest exposure on correspondent accounts and overnight deposits of other banks related to one non-resident bank and amounted to UAH 68,821 thousand, which represented 86.0% of total correspondent accounts and overnight deposits of other banks (31 December 2019: UAH 56,219 thousand, which represented 87.6% of total correspondent accounts and overnight deposits of other banks).

As at 31 December 2020, there was no exposure on short-term borrowings received from other banks (31 December 2019: UAH 86,118 thousand of short-term borrowings received from one non-resident bank).

As at 31 December 2020, there was no due to other banks represented by term deposits (31 December 2019: UAH 66,092 thousand of the EUR-denominated term deposit attracted at the rate 3.68%).

Analysis of due to other banks by interest rates, geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Balances on related party transactions are disclosed in Note 32.

15. Current accounts and deposits

	31 December 2020	31 December 2019
Current accounts		
- Current accounts of legal entities	7,651,332	5,191,853
- Current accounts of individuals	2,125,832	1,262,847
Total current accounts	9,777,164	6,454,700
Deposits		
- Deposits of legal entities	2,422,865	589,055
- Deposits of individuals	2,290,278	1,911,059
Total deposits	4,713,143	2,500,114
Total current accounts and deposits	14,490,307	8,954,814

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15. Current accounts and deposits (continued)

As at 31 December 2020, included in current accounts balances were demand deposits totaling to UAH 474,352 thousand (31 December 2019: UAH 126,758 thousand), of which UAH 87,138 thousand related to individuals (31 December 2019: UAH 62,257 thousand) and UAH 387,214 thousand related to legal entities (31 December 2019: UAH 64,501 thousand). These deposits earned interest at the rates ranging from 0.01% to 12.16% p.a. depending on the remaining balance of the account and currency.

As at 31 December 2020, current accounts of top 10 customers of the Bank amounted to UAH 2,674,572 thousand (31 December 2019: UAH 1,813,763 thousand), or 27% (31 December 2019: 28%) of total current accounts.

As at 31 December 2020, deposits of top 10 customers of the Bank amounted to UAH 2,384,806 thousand (31 December 2019: UAH 719,060 thousand), or 51% (31 December 2019: 29%) of total deposits.

As at 31 December 2020, included in customer accounts were balances totaling to UAH 567,979 thousand (31 December 2019: UAH 477,911 thousand) placed by customers as collateral to secure for loans to customers totaling to UAH 448,333 thousand (31 December 2019: UAH 451,309 thousand). Refer to Note 8.

Current accounts allocated by economic sectors were as follows:

	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Transport, telecommunications	2,751,016	28	1,836,231	28
Trade	2,175,596	22	1,513,143	23
Individuals	2,125,832	22	1,262,847	20
Processing industry	704,700	7	526,583	8
Financial intermediaries	673,442	7	318,344	5
Agriculture	428,319	4	197,986	3
Construction	408,925	4	370,701	6
Professional services	294,965	3	273,446	4
Other	214,369	3	155,419	3
Total current accounts	9,777,164	100	6,454,700	100

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Notes to the financial statements
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15. Current accounts and deposits (continued)

Deposits allocated by economic sectors were as follows:

	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Individuals	2,290,278	49	1,911,059	76
Trade	920,277	20	40,664	2
Construction	842,902	17	-	-
Professional services	223,417	5	100,560	4
Processing industry	130,668	3	166,720	7
Financial intermediaries	163,939	3	-	-
Transport, telecommunications	121,821	2	120,744	5
Other	19,841	1	160,367	6
Total deposits	4,713,143	100	2,500,114	100

Analysis of customer accounts by interest rates and geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Balances on related party transactions are disclosed in Note 32.

16. Other financial and non-financial liabilities

	31 December 2020	31 December 2019
<i>Other financial liabilities</i>		
Accounts payable on assets and services purchased	26,098	22,101
Settlements with customers	12,154	16,684
Interest rate swaps	6,967	-
Fees and commissions on loans prepaid	3,352	2,829
Provisions for financial liabilities	1,311	699
Expense accrued on services	721	9,093
Other financial liabilities	1,223	1,163
Total other financial liabilities	51,826	52,569
<i>Other non-financial liabilities</i>		
Provisions for vacations	29,974	35,007
Payables to Individual Deposit Guarantee Fund	7,709	5,424
Deferred income	5,240	4,169
Taxes payable, other than income taxes	4,240	2,656
Total other non-financial liabilities	47,163	47,256
Total other financial and non-financial liabilities	98,989	99,825

Analysis of other financial liabilities by interest rates, geographical concentration, foreign currency, and liquidity risks is provided in Note 27.

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17. 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. 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 2020, the Bank repaid USD 1,000 thousand (2019: USD 250 thousand).

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 (nine) 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 2020, the Bank repaid USD 944 thousand (2019: 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). Effective from 1 January 2020, OVERSEAS PRIVATE INVESTMENT CORPORATION appointed and assigned all its functions, personnel, assets, liabilities, including its rights, obligations, and duties, to another legal entity, United States International Development Finance Corporation.

The contractual interest rates are based on 3-month USD LIBOR rate plus margin of 4.25% and 3.8%, respectively, which, as at 31 December 2020, amounted to 4.5% and 4.05%, respectively (31 December 2019: 6.6875% and 6.2375%, respectively). Interest is payable on a three month basis over the term of the borrowing agreement.

As at 31 December 2020, carrying value of other borrowed funds amounted to UAH 372,653 thousand (31 December 2019: UAH 355,854 thousand).

The Bank should comply with certain covenants relating to its other borrowed funds. A failure to comply with those covenants may result in negative consequences to the Bank, including a demand to early repay funds by the borrower at the lender's discretion. As at 31 December 2020 and 2019, the Bank was in compliance with the covenants imposed by the agreements on other borrowed funds.

Information on changes in the Bank's liabilities on other borrowed funds, including cash and non-cash changes, is provided in Note 19.

Analysis of other borrowed funds by interest rates, geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Information on provisions for other borrowed funds described above is disclosed in Note 29.

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18. Subordinated debt

	Currency	Maturity	Nominal rate, %	31 December 2020	31 December 2019
Subordinated debt received from a related party-individual	USD	6 September 2027	6	59,378	49,162
Subordinated debt received from a related party-individual	USD	30 November 2025	8	52,362	43,293
Total subordinated debt				111,740	92,455

In September 2020, an additional agreement was concluded on extending the USD-denominated subordinated debt from a related party-individual in the amount of USD 2,000 thousand for the period to September 2027 (the previous maturity date was on 6 September 2024), with other terms and conditions remaining unchanged. Loss on extending the period for attracting USD-denominated borrowed funds was recognized in equity in the amount of UAH 1,020 thousand.

19. Reconciliation of liabilities arising from financing activities

The tables below detail 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 years ended 31 December 2020 and 2019.

	1 January 2020	Repayments from cash flows	Interest paid	Non-cash changes			31 December 2020
				Interest expense	Foreign exchange differences	Other non- cash changes	
Other borrowed funds	355,854	(53,714)	(22,633)	24,644	68,502	-	372,653
Subordinated debt	92,455	-	(7,520)	7,953	18,852	-	111,740
Lease liabilities	73,752	(47,690)	(11,243)	11,243	-	33,885	59,947
Total reconciliation of liabilities arising from financing activities	522,061	(101,404)	(41,396)	43,840	87,354	33,885	544,340

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19. Reconciliation of liabilities arising from financing activities (continued)

	1 January 2019	Proceeds/ (repay- ments) from cash flows	Interest paid	Interest expense	Non-cash changes		31 December 2019
					Foreign exchange differences	Other non- cash changes	
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

20. Share capital

	Number of issued shares	Amount
As at 1 January 2019	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
Increase in share capital at the cost of retained earnings	-	156,810
Contributions on unregistered share capital	-	46,041
As at 31 December 2020	3,073,500	841,955

All shares are ordinary shares, with the nominal value of UAH 258.96 per share (2019: UAH 207.94 per share). Each ordinary share carries one vote. All shares are authorized, issued, and fully paid, with equal voting, dividend, and capital repayment rights.

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 2020 and 2019.

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20. Share capital (continued)

The statutory reserve fund in equity accounted for in accordance with the Law of Ukraine “On Banks and Banking” amounted to UAH 31,501 thousand as at 31 December 2020 (31 December 2019: UAH 23,218 thousand). Charges to the reserve fund are made from the net profits for the year retained by the Bank after paying taxes and making 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 2020, the sole shareholder decided to increase the Bank’s share capital by UAH 156,810 thousand to the total amount of UAH 795,914 thousand and, also, approved profits for 2019 in the amount of UAH 165,088 thousand and their distribution as follows:

- UAH 8,278 thousand distributable to the Bank’s reserve fund;
- UAH 156,810 thousand distributable to increase the share capital.

The Bank’s share capital was increased through the increase in nominal value of the Bank’s shares by UAH 51.02 to the total value of UAH 258.96 per share. In June 2020, the new version of the Bank’s Charter was state registered. On 28 July 2020, the National Commission for Securities and Stock Market registered the increase in the Bank’s share capital by UAH 156,810 thousand to the total amount of UAH 795,914 thousand through the increase in the nominal value of shares to UAH 258.96 per share.

In August 2020, the sole shareholder decided to increase the Bank’s share capital by UAH 46,041 thousand to the total amount of UAH 841,955 thousand and also approved the distribution of retained earnings for 2003-2014 in the amount of UAH 46,046 thousand as follows:

- UAH 5 thousand distributable to the Bank’s reserve fund;
- UAH 46,041 thousand distributable to increase the share capital.

On 15 October 2020, the National Bank of Ukraine agreed a new version of the Bank’s Charter due to the increase in its share capital to UAH 841,955 thousand. On 5 November 2020, the new Charter of the Bank was state registered. On 2 February 2021, the National Commission for Securities and Stock Market registered the increase in the Bank’s share capital by UAH 46,041 thousand to the total amount of UAH 841,955 thousand through the increase in the nominal value of shares to UAH 273.94 per share.

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21. Interest income and expense

	For 12 months of 2020	For 12 months of 2019
Interest income		
Interest income on financial assets measured at amortized cost:		
Loans to legal entities	911,127	956,849
Investment securities measured at amortized cost	161,118	153,887
Loans to individuals	16,575	16,634
Due from other banks	3,328	15,767
Interest income on financial assets measured at fair value through other comprehensive income:		
Investment securities measured at fair value through other comprehensive income	56,996	17,280
Total interest income	1,149,144	1,160,417
Interest expense		
Interest expense on financial liabilities measured at amortized cost:		
Current/settlement accounts	254,121	280,919
Term deposits of individuals	112,681	99,235
Term deposits of legal entities	51,715	28,532
Other borrowed funds	24,644	28,964
Due to other banks	13,468	43,169
Interest expense on lease liabilities	11,243	11,484
Subordinated debt	7,953	12,616
Total interest expense	475,825	504,919
Net interest income	673,319	655,498

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Notes to the financial statements
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22. Services and commission income and expense

	For 12 months of 2020	For 12 months of 2019
Services and commission income		
- Cash and settlement transactions	572,915	396,893
- Purchase and sale of foreign currency	98,772	89,910
- Guarantees issued	20,270	18,801
- Lending transactions	20,136	15,893
- Use of safe deposits	10,641	8,274
- Cash collection	7,020	6,003
- Other	2,512	1,603
Total services and commission income	732,266	537,377
Services and commission expense		
- Commissions for settlement services	269,922	186,094
- Commissions for payment processing	15,242	18,105
- Other	3,698	532
Total services and commission expense	288,862	204,731
Net services and commission income	443,404	332,646

23. Other operating income

	2020	2019
Income from MasterCard on implementation of a joint marketing program	24,494	18,225
Other	1,550	1,213
Total other operating income	26,044	19,438

24. Staff related costs

For the year ended 31 December 2020, staff related costs amounted to UAH 471,736 thousand (2019: UAH 406,834 thousand).

Included in staff related costs for 2020 was unified social contribution in the amount of UAH 61,546 thousand (2019: UAH 49,175 thousand).

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25. Administrative and other operating expense

	For 12 months of 2020	For 12 months of 2019
Royalty	130,801	99,388
Maintenance of premises and equipment	90,219	85,256
Communication, mail, and information systems	75,222	55,477
Contributions to Individual Deposit Guarantee Fund	27,180	19,970
Advertising and marketing services	23,477	18,184
Professional services	16,867	18,135
Security services	10,343	9,360
Utilities	5,896	6,010
Other taxes and mandatory payments, other than income taxes	4,994	4,186
Expense on leases of low value underlying assets and short-term leases	2,238	4,036
Business trips	1,329	6,976
Other	36,243	25,421
Total administrative and operating expenses	424,809	352,399

Included in royalty were monthly payments for using the trade mark of “Vlasnyi Rakhunok” to a related party – an entity under control of ultimate shareholders in the amount of UAH 127,759 thousand (2019: UAH 95,931 thousand).

26. Income taxes

Components of income tax expense. Income tax expense recorded in profit or loss for the year comprised the following components:

	2020	2019
Current tax	33,056	37,463
Deferred tax	239	26
Income tax expense for the year	33,295	37,489

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26. Income taxes (continued)

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 2020 was 18% (2019: 18%). Reconciliation between the expected and actual tax charges is provided below.

	2020	2019
Profit before tax	182,785	202,577
Theoretical tax charges at the statutory tax rate	32,901	36,464
Tax effect of items which are not deductible or taxable:		
- Non-deductible expenses	585	183
- Expenses not recognized in financial accounting	(191)	(19)
- Other permanent differences	-	861
Income tax expense for the year	33,295	37,489

In 2020, 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 amounts 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% (2019: 18%).

	1 January 2020	Credited to profit or loss	Recognized in other comprehensive income	31 December 2020
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	4,743	(235)	-	4,508
Expense accrued	4	(4)	-	-
Investment securities	(2,253)	-	495	(1,758)
Net deferred tax assets	2,494	(239)	495	2,750
Deferred tax assets recognized	4,747	(239)	-	4,508
Deferred tax liabilities recognized	(2,253)	-	495	(1,758)
Net deferred tax assets	2,494	(239)	495	2,750

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Notes to the financial statements
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26. Income taxes (continued)

Tax effect of movements in temporary differences during the year ended 31 December 2019 is detailed below:

	1 January 2019	Credited to profit or loss	Recognized in other comprehensive income	31 December 2019
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	4,750	(7)	-	4,743
Expense accrued	23	(19)	-	4
Investment securities	-	-	(2,253)	(2,253)
Net deferred tax assets	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	4,773	(26)	(2,253)	2,494

27. Financial risk management

The risk management function within the Bank is described in respect of financial risks, operating risks, and compliance risks. Financial risks comprise market risk, interest rate risk of bank book, credit risk, and liquidity risk. Primary objectives of the financial risk management function are to maintain the acceptable level of risk within the established risk appetite and other set limits and restrictions, ensure the capital adequacy to cover material risks, financial stability of the Bank and its development under the Strategic Plan of the Bank's Development and determined business model, improve the efficiency of capital management, and increase the value of the Bank's equity.

Risks are managed in an integrated manner and assessed in terms of the Bank's Risk Management Strategy and Risk Appetite Declaration, which are reviewed and approved by the Supervisory Board on an annual basis. The operating and compliance risk management functions are intended to ensure proper functioning of internal policies and procedures aimed at minimizing those risks.

The collegiate bodies responsible for risk management functions are represented by: the Supervisory Board, the Management Board, Assets and Liabilities Management Committee (“ALCO”), Credit Committee (for corporate and retail business and interbank operations), Operating Risk Management Committee (“ORMC”), and Tariff Committee.

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Notes to the financial statements
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27. Financial risk management (continued)

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, ORMC, 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 powers with respect to overall asset, liability, and risk management to ALCO, ORMC, Credit Committee, and Tariff Committee.

ALCO coordinates work of all structural units 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 risk, interest rate risk of a bank book, and liquidity risk.

Credit Committees and Commissions make and approve decisions on lending transactions within their respective authorities, as well as on other credit-related issues relating to corporate and retail customers and regarding setting up limits for the parties operating in interbank market (foreign exchange and money markets). They also make decisions on creating allowances for expected credit losses.

In the event the amount of lending operation or the total amount of the exposure of a customer (or a group of related parties) to the Bank, taking into account all off-balance sheet liabilities issued by the Bank in respect this customer (a group of related parties), as well as 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, subject to further approval by the Supervisory Board of the Bank.

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 2020, no changes occurred in risk management policies.

Credit risk. Credit risk represents the Bank’s exposure to financial or additional losses or shortages in planned income as a result of failure by a borrower or counterparty to fulfill its contractual 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).

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27. Financial risk management (continued)

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 Policies and 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:

- Ensuring the balance of acceptable risk level and rate of return;
- Establishing risk appetite indicators for this type of risk;
- 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 applies the following methods to manage its credit risk:

- Preventing risk before a transaction held;
- Planning a risk level through assessing the level of estimated losses;
- Limiting the credit risk by setting limits within the approved risk appetite;
- Creating provisions for covering possible losses on loans granted;
- Structuring agreements;
- Managing the adequacy of collateral on agreements;

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Notes to the financial statements
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27. Financial risk management (continued)

- Applying the system of authorities in making decisions;
- Identifying in a timely manner the assets that may potentially turn out to be non-performing through the implemented system of early warning;
- Conducting a consistent monitoring and control of the risk level.

To minimize the credit risk, the Bank also uses pledges and other types of collateral.

A decision on active operations with large corporate customers is made by the Bank’s Credit Committees and Credit Commissions. 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.

In assessing 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 2020, all loan transactions were performed within the limits set.

Measuring expected credit losses on financial assets assessed on a portfolio basis. 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 requirements, the Bank creates allowances for expected credit losses.

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.

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27. Financial risk management (continued)

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 higher than Class 6;
 - Significant decrease in monthly volumes on current accounts;
 - Other criteria evidencing on changes in the credit risk.
- 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.

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Notes to the financial statements
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27. 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 portfolio assessments.

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 loans 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;

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27. Financial risk management (continued)

- 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.

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 loans to customers measured on a portfolio 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 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).

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27. Financial risk management (continued)

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 of 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. 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.

The tables below analyze information on significant changes in the gross carrying value of loans to customers during the period, as well as movements in allowance for expected credit losses during 2020 and 2019. Movements in expected 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.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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27. Financial risk management (continued)

Loans 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	Total
31 December 2019	5,462,253	1,091,322	210,455	287	6,764,317
New loans to customers or loans that have been created	5,949,319	-	-	19,895	5,969,214
Transfer to Stage 1	176,041	(176,041)	-	-	-
Transfer to Stage 2	(290,723)	290,723	-	-	-
Transfer to Stage 3	-	(52,687)	52,687	-	-
Loans de-recognized during the reporting period	(4,658,656)	(572,381)	(84,311)	(287)	(5,315,635)
Written off and sold during the reporting period	-	-	(1,478)	-	(1,478)
Changes due to modification that has not resulted in de-recognition during the reporting period	(12,800)	(6,908)	(5,759)	-	(25,467)
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(205,914)	65,077	5,551	-	(135,286)
31 December 2020	6,419,520	639,105	177,145	19,895	7,255,665
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2018	5,211,230	1,182,281	347,341	80,622	6,821,474
New loans to customers or loans that have been created	4,717,492	-	-	-	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 de-recognized during the reporting period	(3,183,249)	(508,688)	(130,241)	(28,919)	(3,851,097)
Written off and sold during the reporting period	-	-	(9,403)	-	(9,403)
Changes due to modification that has not resulted in de-recognition during the reporting period	(12,263)	(2,056)	(13,901)	-	(28,220)
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(566,996)	(253,761)	(13,756)	(51,416)	(885,929)
31 December 2019	5,462,253	1,091,322	210,455	287	6,764,317

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

Loans 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	Total
31 December 2019	6,941	91,573	141,958	(9)	240,463
New loans to customers or loans that have been created	72,887	-	-	(4,901)	67,986
Transfer to Stage 1	60	(60)	-	-	-
Transfer to Stage 2	(65,948)	65,948	-	-	-
Transfer to Stage 3	-	(18,239)	18,239	-	-
Loans de-recognized during the reporting period	(6,351)	(65,551)	(43,146)	9	(115,039)
Written off and sold during the reporting period	-	-	(1,478)	-	(1,478)
Effect of changes in models or risk parameters	37	19,276	3,276	-	22,589
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(129)	4,086	15,251	-	19,208
31 December 2020	7,497	97,033	134,100	(4,901)	233,729

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired loans	Total
31 December 2018	17,767	72,484	168,608	(4,399)	254,460
New loans to customers or loans that have been created	32,654	-	-	-	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 de-recognized during the reporting period	(8,899)	(6,312)	(83,017)	366	(97,862)
Written off and sold during the reporting period	-	-	(9,403)	-	(9,403)
Effect of changes in models or risk parameters	(3,647)	13,614	60,486	14	70,467
Effect of other changes (including foreign currency exchange fluctuations and partial repayment)	(6,381)	(10,031)	2,549	4,010	(9,853)
31 December 2019	6,941	91,573	141,958	(9)	240,463

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Notes to the financial statements
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27. Financial risk management (continued)

To disclose changes in gross carrying value of loans to customers during the period, as well as movements in allowance for expected credit losses during 2020 and 2019, all changes in gross carrying value and allowance for loans recognized during the reporting period are presented in line “New loans to customers or loans that have been created” irrespective of the reason for the said changes.

As at 31 December 2020, undiscounted amount on the initial impairment of originated credit-impaired loans recognized on their initial recognition and not included in allowances amounted to UAH 17,698 thousand (31 December 2019: UAH 204 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 2020, amounting to UAH 262,133 thousand (31 December 2019: UAH 181,702 thousand).

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 2020, the allowance amounted to UAH 86 thousand and was, correspondingly, included in Stage 1 (31 December 2019: UAH 70 thousand and, correspondingly, included in Stage 1).

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 2020 that resulted in the transfer of modified financial assets with lifetime expected credit losses to the category of financial assets with 12-month expected credit losses had no significant impact on the statement of profit or loss and other comprehensive income (2019: no modification occurred).

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.

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Notes to the financial statements
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27. Financial risk management (continued)

The table below summarizes the Bank’s exposure to foreign currency risk concentration as at 31 December 2020.

	31 December 2020			
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial liabilities	Net position
UAH	9,597,335	8,786,260	6,967	804,108
USD	5,183,194	5,133,335	-	49,859
EUR	1,221,265	1,215,704	-	5,561
Other	26,369	24,193	-	2,176
Total	16,028,163	15,159,492	6,967	861,704

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

	31 December 2019			
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial assets/ (liabilities)	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 above analysis includes only monetary financial assets and liabilities.

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:

	31 December 2020		31 December 2019	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 10% (2019: strengthening by 15%)	4,986	4,089	(1,953)	(1,601)
USD weakening by 5% (2019: weakening by 5%)	(2,493)	(2,044)	651	534
EUR strengthening by 10% (2019: strengthening by 15%)	556	456	(3,901)	(3,199)
EUR weakening by 5% (2019: weakening by 5%)	(278)	(228)	1,300	1,066
Other currency strengthening by 10% (2019: strengthening by 10%)	218	179	1,088	892
Other currency weakening by 5% (2019: weakening by 5%)	(109)	(89)	(544)	(446)

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27. Financial risk management (continued)

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, while a positive amount reflects a net potential increase. 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.

As at 31 December 2020, most financial assets and liabilities of the Bank were issued/attracted at fixed interest rates. As at 31 December 2020, interest was accrued at floating interest rates on loans to customers in the amount of UAH 568,017 thousand (31 December 2019: no such loans), other borrowed funds in the amount of UAH 372,653 thousand (31 December 2019: UAH 355,854 thousand), and derivative financial instruments on interest rate swaps (Note 30). The table below analyzes the sensitivity of interest rates on assets and liabilities at floating interest rates as at 31 December 2020 and 2019:

	31 December 2020		31 December 2019	
	Interest rate +1	Interest rate -1	Interest rate +1	Interest rate -1
Impact on profit or loss before income tax				
Sensitivity of non-derivative financial assets	5,680	(5,680)	-	-
Sensitivity of non-derivative financial liabilities	(3,727)	3,727	(3,559)	3,559
Sensitivity of derivative financial instruments	(1,001)	(9,009)	-	-
Net impact on profit or loss	952	(10,962)	(3,559)	3,559

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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:

	31 December 2020				31 December 2019			
	UAH	USD	EUR	Other currencies	UAH	USD	EUR	Other currencies
Non-derivative financial assets								
Due from other banks:								
Correspondent accounts with other banks	0.06%	0.01%	0.00%	0.00%	0.0%	0.7%	0.0%	0.0%
Term deposits with other banks	0.00%	0.01%	0.00%	0.00%	0.0%	2.0%	0.0%	0.0%
Loans to customers:								
Loans to legal entities	13.94%	7.48%	6.31%	-	18.7%	7.9%	6.8%	-
Investment securities measured at fair value through other comprehensive income	14.28%	3.64%	2.45%	-	15.5%	4.6%	-	-
Investment securities measured at amortized cost	6.00%	-	-	-	13.2%	-	-	-
Non-derivative financial liabilities								
Due to other banks:								
Correspondent accounts and overnight deposits of other banks	0.00%	2.29%	1.22%	0.00%	0.0%	3.1%	4.9%	0.0%
Term borrowings received	-	-	-	-	-	6.2%	4.0%	-
Current accounts	2.93%	0.56%	0.01%	0.00%	6.3%	1.1%	0.4%	0.0%
Deposits	6.35%	3.24%	1.69%	-	12.4%	4.7%	3.0%	-
Lease liabilities	17.20%	6.70%	10.80%	-	18.8%	8.9%	10.8%	-
Other borrowed funds	-	4.27%	-	-	-	6.5%	-	-
Subordinated debt	-	7.00%	-	-	-	7.0%	-	-
Derivative financial assets and liabilities								
Derivative financial assets	5.25%	-	-	-	-	-	-	-
Derivative financial liabilities	6.50%	-	-	-	-	-	-	-

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Notes to the financial statements
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27. Financial risk management (continued)

Geographical risk concentration. Geographical concentration of the Bank’s financial assets and liabilities as at 31 December 2020 is set out below:

	Ukraine	OECD countries	Other countries	Total
Non-derivative financial assets				
Cash	857,762	-	-	857,762
Balances with the National Bank of Ukraine	524,160	-	-	524,160
Due from other banks	18,557	2,058,336	-	2,076,893
Loans to customers	7,021,930	5	1	7,021,936
Investment securities measured at fair value through other comprehensive income	1,580,006	181,599	7,046	1,768,651
Investment securities measured at amortized cost	3,501,147	-	-	3,501,147
Other financial assets	7,763	269,762	89	277,614
Total non-derivative financial assets	13,511,325	2,509,702	7,136	16,028,163
Non-derivative financial liabilities				
Due to other banks	11,166	-	68,820	79,986
Current accounts	9,620,398	82,503	74,263	9,777,164
Deposits	4,581,958	124,548	6,637	4,713,143
Lease liabilities	59,947	-	-	59,947
Other borrowed funds	-	372,653	-	372,653
Other financial liabilities	44,069	609	181	44,859
Subordinated debt	111,740	-	-	111,740
Total non-derivative financial liabilities	14,429,278	580,313	149,901	15,159,492
Net position on non-derivative financial instruments	(917,953)	1,929,389	(142,765)	868,671
Net position on derivative financial instruments	(6,967)	-	-	(6,967)
Net position on derivative and non-derivative financial instruments	(924,920)	1,929,389	(142,765)	861,704

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.

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Notes to the financial statements
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27. Financial risk management (continued)

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

	Ukraine	OECD countries	Other countries	Total
Non-derivative 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 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 non-derivative financial assets	9,646,558	800,449	95	10,447,102
Non-derivative 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 non-derivative financial liabilities	9,006,570	529,261	210,034	9,745,865
Net position on non-derivative financial instruments	639,988	271,188	(209,939)	701,237
Net position on derivative financial instruments	-	-	-	-
Net position on derivative and non-derivative financial instruments	639,988	271,188	(209,939)	701,237

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Notes to the financial statements
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27. 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 2020 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 amounts included in the statement of financial position because the amounts in the statement of financial position are 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.

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27. Financial risk management (continued)

The maturity analysis of financial liabilities as at 31 December 2020 and 2019 based on undiscounted cash flows for financial liabilities was as follows:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
31 December 2020					
Due to other banks	69,973	400	9,613	-	79,986
Current accounts	9,660,335	11,050	105,075	704	9,777,164
Deposits	2,391,559	759,118	1,399,762	231,373	4,781,812
Lease liabilities	5,658	9,194	34,189	16,994	66,035
Other borrowed funds	-	17,794	52,854	373,073	443,721
Other financial liabilities	44,859	-	-	-	44,859
Subordinated debt	540	1,280	5,965	150,740	158,525
Irrevocable loan commitments	64,406	-	-	-	64,406
Financial guarantees issued	917,288	-	-	-	917,288
Avals issued	70,236	-	-	-	70,236
Total potential future payments on non-derivative financial liabilities and loan commitments as at 31 December 2020					
	13,224,854	798,836	1,607,458	772,884	16,404,032
Derivative financial liabilities					
	184	1,068	3,742	8,532	13,526
Total potential future payments on derivative financial liabilities as at 31 December 2020					
	184	1,068	3,742	8,532	13,526
Total potential future payments on financial liabilities and loan commitments as at 31 December 2020					
	13,225,038	799,904	1,611,200	781,416	16,417,558

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27. Financial risk management (continued)

	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
Lease liabilities	5,150	8,213	31,046	42,223	86,632
Other borrowed funds	-	16,781	51,306	396,516	464,603
Other financial liabilities	52,569	-	-	-	52,569
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 non-derivatives financial liabilities loan commitments as at 31 December 2019					
	7,971,446	476,930	1,433,012	760,793	10,642,181
Derivative financial liabilities					
	-	-	-	-	-
Total potential future payments on derivative financial liabilities as at 31 December 2019					
	-	-	-	-	-
Total potential future payments on financial liabilities and loan commitments as at 31 December 2019					
	7,971,446	476,930	1,433,012	760,793	10,642,181

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.

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Notes to the financial statements for the year ended 31 December 2020 (continued) (in Ukrainian Hryvnias and in thousands)

27. 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 2020:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Non-derivative financial assets					
Cash	857,762	-	-	-	857,762
Balances with the National Bank of Ukraine	524,160	-	-	-	524,160
Due from other banks	1,893,119	-	183,774	-	2,076,893
Loans to customers	838,357	1,082,162	3,315,811	1,785,606	7,021,936
Investment securities measured at fair value through other comprehensive income	350	446,584	431,099	890,618	1,768,651
Investment securities measured at amortized cost	3,501,147	-	-	-	3,501,147
Other financial assets	15,529	-	37	262,048	277,614
Total non-derivative financial assets	7,630,424	1,528,746	3,930,721	2,938,272	16,028,163
Non-derivative financial liabilities					
Due to other banks	69,973	400	9,613	-	79,986
Current accounts	9,660,335	11,050	105,075	704	9,777,164
Deposits	2,509,292	702,891	1,285,413	215,547	4,713,143
Lease liabilities	5,625	8,955	31,241	14,126	59,947
Other borrowed funds	-	13,875	39,982	318,796	372,653
Other financial liabilities	44,859	-	-	-	44,859
Subordinated debt	540	-	-	111,200	111,740
Total non-derivative financial liabilities	12,290,624	737,171	1,471,324	660,373	15,159,492
Derivative financial liabilities	6,967	-	-	-	6,967
Total financial liabilities	12,297,591	737,171	1,471,324	660,373	15,166,459
Net liquidity gap as at 31 December 2020	(4,667,167)	791,575	2,459,397	2,277,899	861,704
Cumulative liquidity gap as at 31 December 2020	(4,667,167)	(3,875,592)	(1,416,195)	861,704	
Loan commitments					
Irrevocable loan commitments	64,406	-	-	-	64,406
Guarantees issued	917,288	-	-	-	917,288
Avals issued	70,236	-	-	-	70,236
Cumulative liquidity gap as at 31 December 2020, including loan commitments	(5,719,097)	(4,927,522)	(2,468,125)	(190,226)	

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Notes to the financial statements
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27. Financial risk management (continued)

As at 31 December 2020, the Bank had a significant cumulative liquidity gap of financial assets and liabilities up to 12 months in the amount of UAH 2,468,125 thousand. This liquidity gap arises from the fact that an important source of funding for the Bank are customer current accounts. Management believes that a significant volume and stable growth of the customer base and the past experience of the Bank indicate that most customer current accounts provide a long-term and stable source of funding for the Bank. The minimum balance of customer funds on current accounts during 2019 and 2020 amounted to UAH 3,642,113 thousand, which was 37% of total customer accounts as at 31 December 2020. In addition, as at 31 December 2020:

- 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 890,628 thousand that may be sold by the Bank in the case of need;
- Due to other banks included correspondent accounts and overnight deposits obtained from a related party (an entity under common control) in the amount of UAH 68,821 thousand (Note 32) that, if needed, may be extended for a respective period.

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27. Financial risk management (continued)

The liquidity position of the Bank as at 31 December 2019 is set out below:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Non-derivative 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 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 non-derivative financial assets	4,044,361	1,646,803	3,085,004	1,670,934	10,447,102
Non-derivative 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 non-derivative financial liabilities	7,326,535	460,331	1,361,558	597,441	9,745,865
Net liquidity gap as at 31 December 2019	(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	

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Notes to the financial statements
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27. Financial risk management (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities are 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.

28. 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 2020 was UAH 1,031,776 thousand (2019: UAH 885,666 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.

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 2020, the minimum level required by the NBU was 10% (31 December 2019: 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:

	31 December 2020	31 December 2019
Core capital	840,644	641,956
Additional capital	287,364	400,287
Total regulatory capital	1,128,008	1,042,243

As at 31 December 2020 and 2019, 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.

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Notes to the financial statements
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29. 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.

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:

	31 December 2020	31 December 2019
Guarantees issued	917,288	469,927
Avals issued	70,236	146,430
Irrevocable loan commitments	64,406	54,310
Less: Provision in the form of cash deposit	(43,376)	(38,862)
Total loan commitments, less provisions in the form of cash deposits	1,008,554	631,805

As at 31 December 2020 and 2019, the allowance for expected credit losses on loan commitments amounted to UAH 1,311 thousand and UAH 699 thousand, respectively.

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Notes to the financial statements
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29. Contingencies and commitments (continued)

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 a collateral or otherwise restricted with the following gross carrying value:

	31 December 2020	31 December 2019
	Assets pledged	Assets pledged
Loans to customers used as a collateral under other borrowed funds (before allowance for expected credit losses)	639,338	480,994
Guarantee coverage within the payment systems of Visa and Master Card (before allowance for expected credit losses)	262,133	181,702
Funds placed with other banks that are used as a guarantee coverage	184,068	35,766
Investment securities measured at fair value through other comprehensive income used a guarantee fund for interest rate swaps with the NBU	52,206	-
Total	1,137,745	698,462

Gross carrying value of the assets used as a collateral under the borrowing received from WORLDBUSINESS CAPITAL INC. (Notes 8 and 17) that secure for fulfillment of obligations amounted to UAH 639,338 thousand as at 31 December 2020 (31 December 2019: UAH 480,994 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 2020 amounting to UAH 493,088 thousand (31 December 2019: UAH 424,774 thousand).

During 2020, the Bank performed transactions with derivative financial instruments under foreign currency agreements and derivative financial instruments in the form of overnight index interest rate swaps.

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Notes to the financial statements
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30. 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).

Interest rate swap is an over-the-counter derivative, a non-standardized contract entered into between two parties according to which the parties exchange contingent contracts that are equal by amounts and have similar maturity dates and interest payment dates, under which one party pays the interest accrued on the amount of contingent contract at a fixed interest rate, and the other – at a floating interest rate, which is determined based on the index of overnight interest rates.

Fair values of interest rate swaps entered into with the National Bank of Ukraine are determined by the Bank by using the interest rate swap model as a combination of two bonds considering the following:

- Fair value of the bond with a floating coupon rate, the nominal value of which is equal to a contingent amount, and the coupon rate – to a floating interest rate determined on the terms and conditions of interest rate swap transaction;

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30. Derivative financial instruments (continued)

- Cash flows on the bond with a fixed coupon rate, which includes the coupon amount at each date of payment calculation in accordance with the terms and conditions of interest rate swap transaction, and the nominal value of a bond at the recent date of payment calculation in accordance with the terms and conditions of interest rate swap transaction;
- Period to the date of payment calculation in accordance with the terms and conditions of interest rate swap transaction;
- Fixed interest rate established by the NBU in conducting active operations with commercial banks of Ukraine at the date of calculation;
- Floating interest rate.

Fair value of debts under foreign currency swap contracts entered into by the Bank as at 31 December 2020 and 2019 was equal to zero, since those contracts were short-term by nature.

Fair values of debts under interest rate swap agreements entered into by the Bank as at 31 December 2020 are provided in the table below. The table includes contracts to be settled after the reporting date; with the amounts under those contracts shown gross – before offsetting positions (and payments) on each counterparty. These contracts are long-term by nature.

	31 December 2020	
	Contracts with positive fair value	Contracts with negative fair value
Interest rate swap		
- Contract amount under exchange rate of the agreement	-	400,390
- Contract amount at fair value	-	393,423
Net fair value of interest rate swap agreement	-	(6,967)

In 2020, the Bank reported profits on derivative financial instruments in the amount of UAH 2,291 thousand (2019: profits in the amount of UAH 16,177 thousand) in the statement of profit or loss and other comprehensive income.

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31. 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.

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 as follows:

	31 December 2020			31 December 2019		
	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	1,543,122	-	1,543,122	421,012	-	421,012
- Domestic municipal loan bonds	-	36,885	36,885	-	-	-
- Bonds of foreign countries	188,644	-	188,644	-	-	-
TOTAL FINANCIAL ASSETS MEASURED AT FAIR VALUE						
	1,731,766	36,885	1,768,651	421,012	-	421,012

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

Non-recurring fair value measurements. The Bank had no respective balances as at the reporting date.

Financial instruments not measured at fair value but for which fair value disclosure is required. Management believes that the carrying values of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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32. Related party transactions

The Bank grants loans, 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, entities under control of significant shareholders, members of the Supervisory Board and the Management Board, and their immediate family members.

As at 31 December 2020, the outstanding related party balances were as follows:

	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties-individuals
Loans to customers	-	74	52	-
Right-of-use assets	77	-	1	-
Other financial and non-financial assets	6	558	5	1
Due to other banks	-	32,455	-	-
Customer accounts	10,953	353,522	22,095	1,233
Deposits	102,531	3,705	6,986	-
Subordinated debt	111,740	-	-	-
Lease liabilities	3	-	1	-
Other financial and non-financial liabilities	6,608	15,844	1,060	-
Loan commitments	112	2,262	699	-

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 2020, the Bank had no collateral under the loan granted to third party that included property rights on the deposit attracted from the Bank’s related party (31 December 2019: property rights under deposits attracted from the Bank’s related parties in the total amount of UAH 66,055 thousand).

As at 31 December 2020, the Bank had obligations payable to key management personnel and significant shareholders in the form of a provision for unused vacation in the amount of UAH 7,668 thousand (31 December 2019: UAH 14,066 thousand).

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Notes to the financial statements
for the year ended 31 December 2020 (continued)
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32. Related party transactions (continued)

Income and expense items with related parties for 2020 were as follows:

	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	4	9,933	69	-
Interest expense	(14,887)	(48,226)	(1,193)	(8)
Services and commission income	1,266	58,359	417	322
Services and commission expense	-	(14,804)	-	-
Income/(expense) on modification and de- recognition of financial instruments	6	(191)	-	-
Result from revaluation and foreign currency transactions	-	499	-	-
Allowance for expected credit losses on interest-bearing assets	-	(8)	-	-
Administrative and other expenses	(29,386)	(138,644)	(1,874)	-

Remuneration to key management personnel (the Management Board) and the Supervisory Board for the year ended 31 December 2020 included short-term employee benefits that included salary and bonuses payable in cash amounting to UAH 121,609 thousand (2019: UAH 129,169 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 2019, the outstanding related party balances were as follows:

	Significant shareholders and their family members	Entities under control of significant shareholders	Key management personnel and their family members	Other related parties- individuals
Loans to customers	24	24,935	312	-
Right-of-use assets	797	-	5	-
Other financial and non-financial assets	-	266	3	-
Due to other banks	-	208,428	-	-
Customer accounts	10,477	213,205	7,188	1,703
Deposits	109,960	47,941	11,894	-
Subordinated debt	92,455	-	-	-
Lease liabilities	93	-	1	-
Other financial and non-financial liabilities	13,213	10,612	899	-
Loan commitments	76	1,895	147	-

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32. Related party transactions (continued)

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

	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/(expense) on modification and de- recognition of financial instruments	113	2,101	-	-
Result from revaluation and foreign currency transactions	-	216	-	-
(Allowance)/decrease in allowance for expected credit losses on interest-bearing assets	(14)	2	-	-
Administrative and other expenses	(7,919)	(110,850)	(1,367)	-

33. Events after the reporting period

On 2 February 2021, the National Commission for Securities and Stock Market registered the increase in share capital by UAH 46,041 thousand to the total amount of UAH 841,955 thousand through increase in the nominal value of shares to UAH 273.94 per share (Note 20).

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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 2020, 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. Morokhovskiy, and Ms. L. S. Morokhovska.

In 2020, the Bank did not purchase any shares. During 2020, 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.

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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 2020, of 38 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.

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, and 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 PJSC “Settlement Center for Servicing Contracts in Financial Markets”;
- 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;

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- 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:

- Trade in currency valuable;
- Attract financial assets with obligation of their subsequent return;
- Lend funds, including on financial lending terms;
- Issue guarantees;
- Transfer funds;
- Conduct professional activities in the market of securities;
- Conduct factoring operations;
- Provide banking and other 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 (including accounting for and storing securities and other valuables confiscated (arrested) in profit of the state and/or recognized as ownerless) 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, effective from 12 October 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, effective from 12 October 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, effective from 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, effective from 8 May 2014, with a perpetual life, on conducting professional activities in the stock market – trading in securities. Dealer’s activities.

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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

GDP. Based on the performance for 2020, real GDP has contracted by 4.4%. This is much lower than it had been estimated at the beginning of the pandemic caused by COVID-19 (6%). The economy of Ukraine has been quickly recovering in the second half of the year. In 2021, the economy of Ukraine is going to catch up losses as a result of the coronavirus disease of COVID-19 – GDP is planned to grow by 4.2%. This will be mainly driven by a stable domestic demand caused by further increase in real earnings of the population. The decreased uncertainty in respect of the pandemic development will promote the restored investment activities.

Monetary policies. During 2020, the inflation rate remained mainly in the lower part of the target range of $5\% \pm 1$ p.p. The drop in global prices for energy products, as well as a reduced demand to non-essential goods and services curbed the growth in prices during the pandemic. At the same time, at the end of the year, the inflation predictably accelerated. This was caused by a dynamic restoration of global economy, further growth in domestic consumer demand, and increased prices for energy and certain food products. As a result, in December, the inflation rate returned to the target range and achieved its central point.

Public debt. The capital outflow from the private sector was observed during the whole year and reached USD 5.3 billion. In the banking sector, this was caused by mostly internal factors: assets of the banking system grew mainly due to net repayments of currency DGLBs by the government. Capital flows of the real sector were influenced by the consequences of global lockdown: the share of cash beyond banks increased due to a lower level of funding in respect of informal trade and travels abroad, and weak financial results of entities were caused by negative reinvested income and, in its turn, the outflow of direct foreign investments. A higher deficit was mainly financed at the cost of borrowings. A renewed demand to DGLBs from the middle of December led to the record volumes of domestic borrowings. Also, in December, external funding from official partners was obtained, as well as commercial borrowings were made. Broad-scaled borrowings made it possible to overtake expenditures of the year and accumulate a significant resource to fund expenditures at the beginning of 2021.

Banking sector. During 2020, two banks were recognized as insolvent due to their failure to meet capital ratios. Thus, by the end of the year, 73 solvent banks were operating in Ukraine. And though the share of state-owned banks in net assets reduced in favor of private banks during the year, nevertheless, more than half of the sector’s assets still belonged to state-owned banks. At the end of the year, top twenty banks held over 90% assets of the sector.

Profits of the banking sector for 2020 were by the third part lower than in 2019 and amounted to UAH 41.3 billion. In 2020, similar to the previous year, 8 financial institutions were loss-making.

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During the first half of the year of 2020, the NBU decreased its discount rate four times, totally by 7.5 p.p. to the historically low level of 6% p.a. During the year, interest rates on deposits of population also decreased by more than 6 p.p. and entered into a one character range. During Quarter 4, the value of deposits remained almost unchanged. The spread between 3-month and 12-month deposits of individuals remained lower than 1 p.p. At the same time, interest rates on loans to business entities continued to decrease gradually, which also narrowed the spread.

Major risks refer to the tightened quarantine measures both in Ukraine and globally, as well as higher foreign capital contributions. The vaccination held globally diminishes the risk of repeated lockdowns. However, considering the gradual progress of this process, as well as the appearance of new virus strains, a probability is retained of implementing local types of quarantines that will have negative consequences on economic activities. At the same time, very soft monetary conditions in the world and optimism towards vaccination have already revived foreign investors' interest to emerging market, including Ukraine. Significant capital fluctuations may mitigate the inflation pressure through the channel of foreign exchange rates. The following other risks remain actual:

- Escalation military conflict in the east of the country or its borders;
- Intensified inflation pressure from the countries-trading partners;
- Increased volatility of global prices to food products considering the global climate changes and intensified protectionism in the world.

A major assumption refers to the continued cooperation with the International Monetary Fund (the “IMF”). In 2021, Ukraine is expected to receive funds from the IMF within the current stand-by program, as well as the related funding from the EU, the World Bank, and other international partners. These funds will make it possible to finance a significant portion of budget needs in 2021. Cooperation with the IMF represents an important high-quality mark for foreign investors. It will significantly simplify and cheapen the planned borrowings of the government in external markets. Thanks to the support of the IMF and other partners, Ukraine will be able to maintain international reserves at the level of about USD 30 billion, in spite of significant volumes of external debt repayments.

Impact of the pandemic on the Bank's operations. The Bank is able to continue as a going concern in any conditions, even under crisis. A key competitive advantage of the Bank has been and relates to 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. 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.

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Besides, in the structure of the Bank’s loan portfolio, those industries occupy only 11%, 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, pharmaceuticals, 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:

- Credit Committee;
- Tariff Committee;
- Assets and Liabilities Management Committee;
- Operating Risk Management Committee.

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 Management Board.

Composition of the Management Board of PJSC “BANK VOSTOK” as at 31 December 2020:

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

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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 – Member of the Management Board/Finance Director.
Experience in banking sphere from 1997.

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

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

Rodomanov, Vadym Vitaliiiovych – Member 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, protecting rights and economic interests of shareholders, depositors, and other lenders of the Bank, as well as monitoring the activities of the Bank’s Management Board, control units, Corporate secretary (if elected), Corporate Governance department, and is responsible for the state of affairs in the Bank taken as a whole. The Supervisory Board 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. The committees are headed by 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 Bank.

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Composition of the Supervisory Board of PJSC “BANK VOSTOK” as at 31 December 2020:

Kostelman, Volodymyr Mykhailovych – Chairman of the Supervisory Board.

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.

Diachuk, Iryna Borysivna – Member of the Supervisory Board.
Member of Assignment and Remuneration Committee.

Shevchenko, Nina Vitaliivna – Member of the Supervisory Board (independent director).

Kuznietsova, Liudmyla Viktorivna – Member of the Supervisory Board (independent director).
Chairperson of Assignment and Remuneration Committee.
Member of Audit Committee.

Makeieva, Olena Volodymyrivna – Member of the Supervisory Board (independent director).
Chairperson of Audit Committee.
Member of Assignment and Remuneration Committee.

Kuperman, Oleksandr Feliksovych – Member of the Supervisory Board.

Members of the Supervisory Board and the Management Board perform their functions and receive remuneration in accordance with civil and employment agreements concluded with them terms and conditions of which are approved by the decision of the Bank’s sole shareholder for members of the Supervisory Board and by the Supervisory Board for members of the Management Board.

Particular aspects of policies and procedure for payment of remuneration to the Bank’s employees whose professional activities have a significant impact on the Bank’s risk profile, including members of the Supervisory Board and the Management Board, are secured by provisions of the Bank’s Remuneration Policy.

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 # 2 dated 30 April 2020 and Regulation on Organization of Corporate Governance in PJSC “BANK VOSTOK”, as approved pursuant to Resolution of the Bank’s Supervisory Board, Minutes # 57 dated 24 June 2020.

Code of Corporate Governance of PJSC “BANK VOSTOK” is placed on the Bank’s site at:
<https://bankvostok.com.ua/public>.

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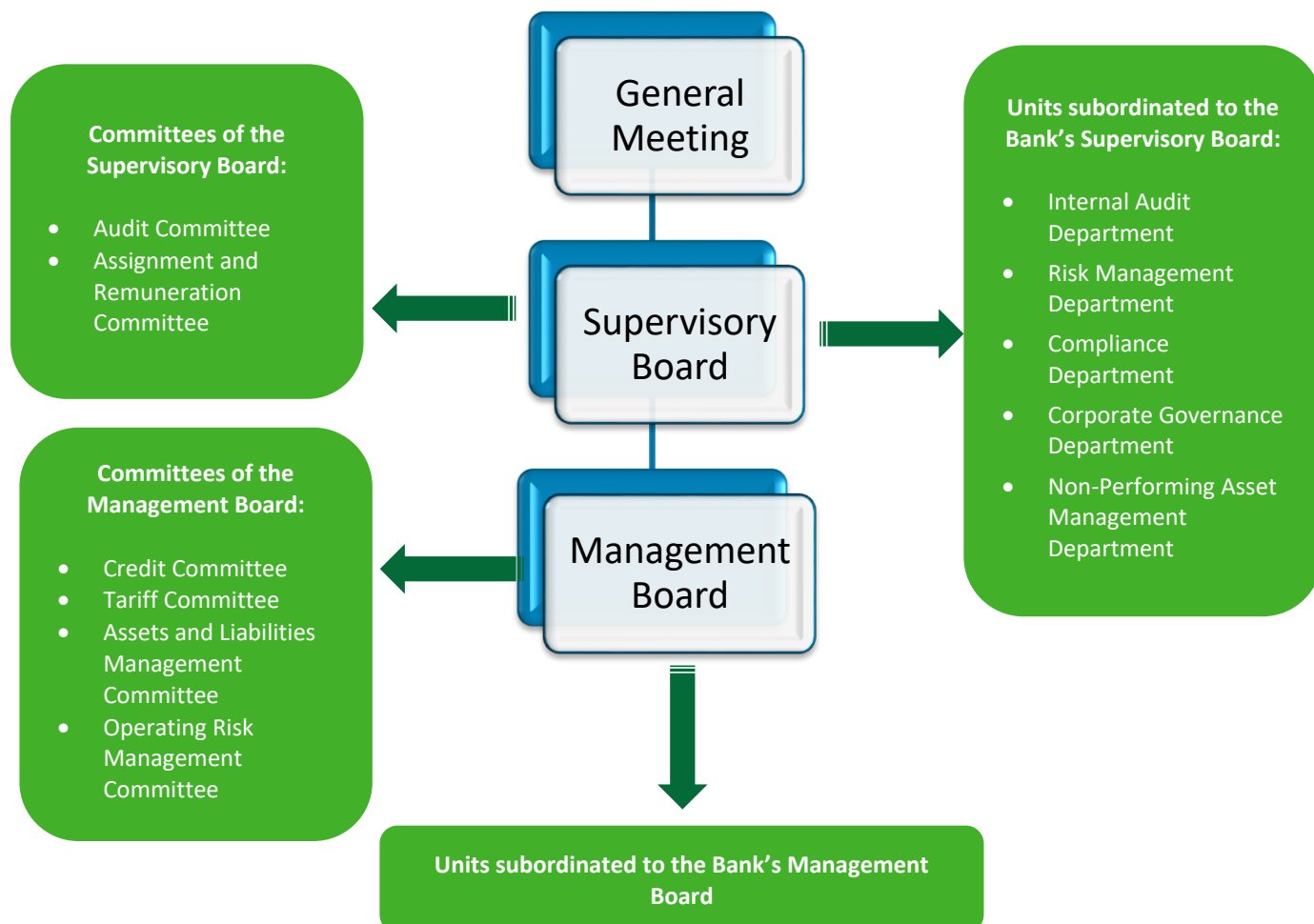
Key principles of the Bank’s corporate governance include the following:

- Principle of ensuring rights and interests of shareholders, customers, and other stakeholders;
- Principle of effective management – available effective internal control system within the Bank that ensures strategic, operating, and current control over its financial and business activities, creating conditions for timely information exchange and efficient interaction among the Bank’s management bodies so that the executives could operate on the basis of all required information, in good faith and reasonably in the interests of shareholders and customers, and employees of the Bank could actively participate in the process of corporate governance and increase their interest in effective operations and ultimate results;
- Principle of effective segregation of authorities among management bodies – the Bank’s corporate structure having independent Supervisory Board in place and its subordinate qualified executive body that ensures the effective management of current activities – the Management Board, as well as rational and clear segregation of authorities between them, strict risk management, strong internal controls, and compliance with regulations;
- Principle of effective control over financial and business activities – available independent system of accountability and control over financial and business activities of the Bank through both engaging an external auditor and creating an internal audit function;
- Principle of corporate social responsibility – complying with the statutory rights and legitimate interests of stakeholders, cooperating actively with stakeholders on developing the wealth, working places, and ensuring the Bank’s financial stability;
- Principle of ownership structure transparency and information openness – ensuring the disclosures and transparent activities, including about the Bank’s financial position, its economic performance, significant events, ownership structure, and management to ensure a possibility of taking weighted decisions by shareholders and customers of the Bank;
- Principle of compliance with legal and ethical norms – complying with the requirements of the effective legislation and internal regulations of the Bank, adhering to ethical norms of business behavior;
- Principle of fair remuneration – the amount and types of remuneration depending on the volumes and efficiency of the Bank’s operations, with reference to strategic objectives and current needs of the Bank;
- Principle of proficiency – understanding by members of the Supervisory Board and members of the Management Board, other employees of the Bank of their authorities and responsibilities, complying with high professional standards in performing their functional duties.

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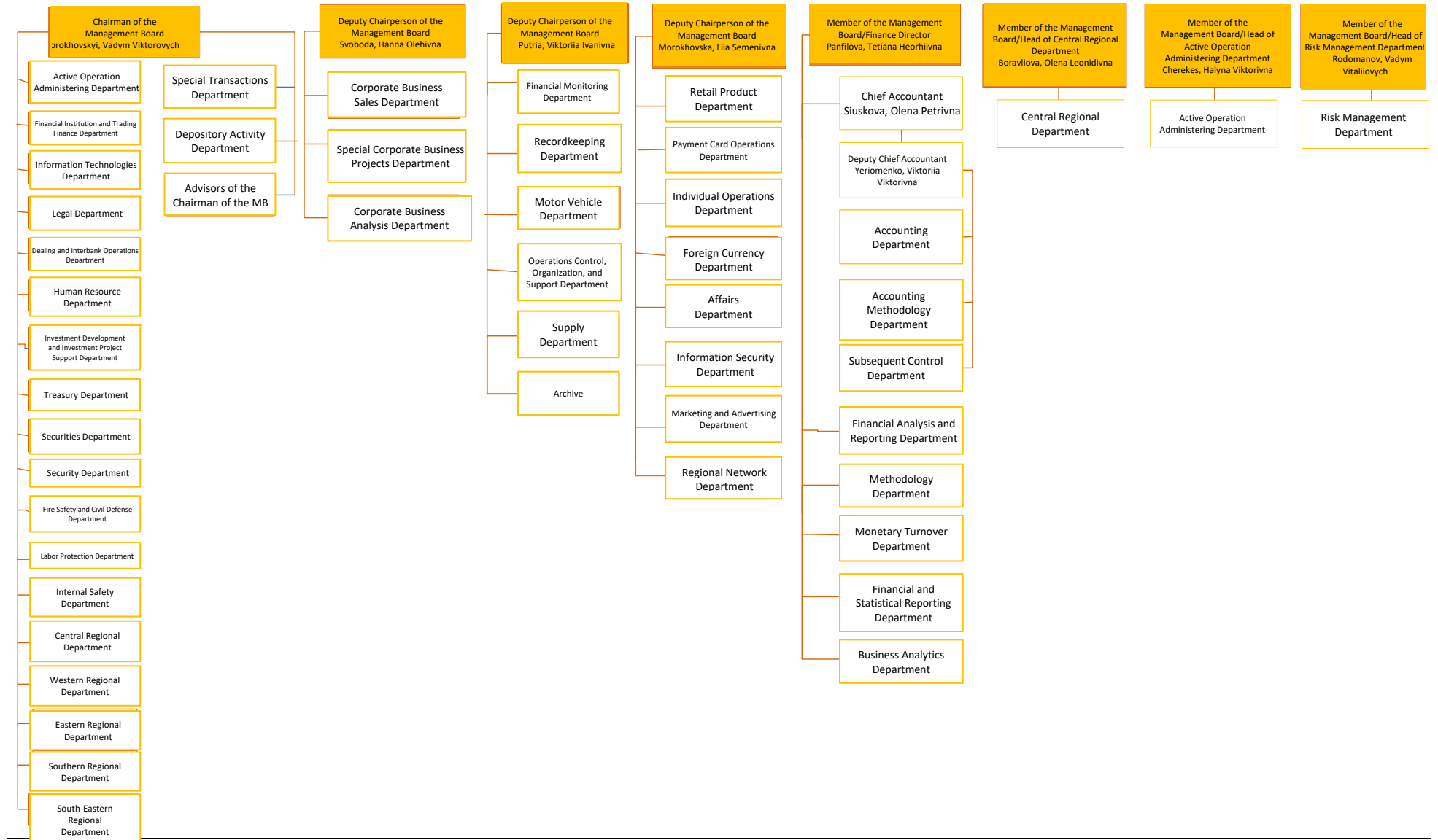
Existing corporate governance model as at 31 December 2020



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Existing corporate governance model as at 31 December 2020 (continued)



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Achievements of the Bank

International rating agency Moody’s Investors Service (“Moody’s”) for the first time assigned ratings to the Bank, among which the credit baseline assessment of B3 and the long-term rating of counterparty’s risk at the national scale of A1.ua. Moody’s distinguishes a high quality of assets, good ability for absorbing possible losses at the cost of sufficient capitalization of the Bank and its good profitability, as well as its high liquidity in spite of the fact that the Bank operates against the background of the weak macro-economic profile of Ukraine.

National credit rating of the Bank was confirmed at the level of uaAA +. Following the increase in rating in November 2019, the independent rating agency “Credit-Rating” announced in November 2020 about the confirmed long-term credit rating of the Bank at the level of uaAA+, with a stable outlook.

The international payment system of Visa awarded the Bank at its annual forum with a diploma on promotion of digital settlements. During the period of long and fruitful cooperation, Visa and the Bank launched a range of special offers and successful projects to the Bank’s customers aimed at increasing loyalty to on-line purchases and digital settlements. The achievements were marked by Visa’s award.

The Bank was ranked third among technological banks of Ukraine at the FinAwards 2020. The Bank was third in the Technologies nomination for implementation of a chat-bot with round-the-clock support. FinAwards is an annual contest held by the sites of Minfin.com.ua and Finance.ua. Within its framework, banks are awarded for advanced developments and outstanding achievements. The Technologies nomination united the banks that, in 2019, realized projects on implementation of technical innovations that improved the quality of customer services.

The Bank joined the government online services on verifying the authenticity of electronic receipts, as well as the government program “Diia (Action)”. The government service on verifying receipts allows inquiring about the payment status on any services, without the need to present hardcopy receipts. For this purpose, it is sufficient to simply elect the required institution and enter the receipt code on the service site. This means that you may pay for services via online banking and provide the receipt code to the employee of a respective government institution.

The Chairman of the Bank’s Management Board received the highest award of the Ukrainian Red Cross Society. Vadym Morokhovsky, the Chairman of the Bank’s Management Board, was awarded by the Letter of Acknowledgement for a weighty contribution in realizing the humanitarian mission of the Ukrainian Red Cross Society in joint work together with the Odesa City Council on combatting the spread of coronavirus disease of COVID-19 in the city of Odesa. The Certificate of Honor was issued pursuant to Resolution of the Presidium of the Ukrainian Red Cross Society. In Ukraine, by 2020, only 10 citizens were awarded with this reward.

The Chairman of the Bank’s Management Board became a member of the Marine Chamber of Ukraine. Vadym Morokhovsky, the Chairman of the Bank’s Management Board, became an honored member of the Marine Chamber of Ukraine (the “MCU”), and the Bank received the status of the MCU’s participant. The Marine Chamber of Ukraine is a representative of Ukrainian business, a self-regulatory independent organization that unites active participants of sea and river shipping industry, specialized associations and organizations focused on ensuring positive changes in the industry.

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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;
- Grant loans on the terms of security, availability, maturity, repayment, provision, 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.

To achieve strategic objectives and improve the Bank’s rating positions in respect of lending to individuals, the Bank decided to implement a new product called “The Bank’s Own Account”.

This product presupposes the following:

- Servicing an individual customer via a mobile application, without a need to visit the Bank’s outlets;
- Granting overdrafts (for this, the Bank uses its own scoring model and system of decision making on setting and changing limits).

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 has been allocating its profits received to increase the statutory capital. The Bank is planning to increase in 2021 the amount of its statutory capital at the cost of profits for 2020 and also increase the statutory capital in the years to come.

One of the Bank’s priorities 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 systems for managing liquidity.

Policies of asset management presuppose the Bank’s operations that are aimed at allocating own and borrowed funds for the purpose of earning profits and ensuring the sufficient level of liquidity and the Bank’s solvency. The Bank adheres to the principles of weighted financial management in shaping and managing the structure of assets and liabilities, effective management of the ratio of individual sources and types of liabilities, creating an optimal balance sheet structure, improving the paying capacity, and strengthening the financial resilience.

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Internal control system

The Bank’s internal control system is based on the principles generally accepted in international practice, as well as the standards and tools recommended by the National Bank of Ukraine, the Basel Committee on Banking Supervision, and other international organizations that regulate in their provisions the principles of effective corporate governance and functioning of internal controls in banking.

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 in respect of the risks inherent to the Bank’s activities;
- 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;

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- 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;

A responsible employee of the Bank and Financial Monitoring Department ensure the performance of functions in the sphere of preventing and counteracting to legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of weapons of mass destruction in the second line of defense.

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.

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

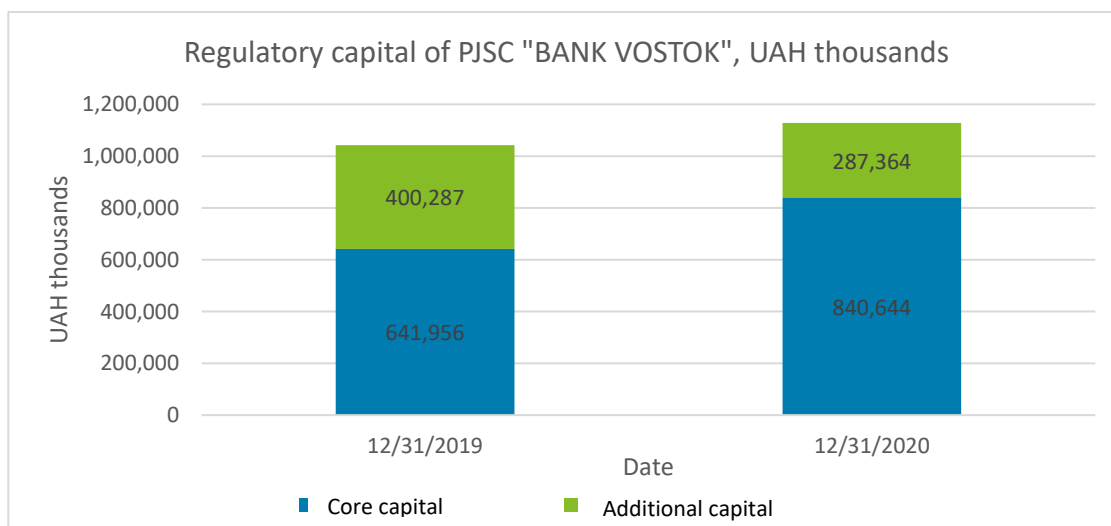
External communication ensures that external users, including shareholders, partners, the Bank’s customers, supervisory, controlling, and enforcement authorities, have actual and timely information.

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. To cover the above need in capital under the negative scenario, the Bank developed a restructuring program agreed with the National Bank of Ukraine. All measures under the program were implemented during 2020, of which the Bank reported to the NBU.

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In 2020, in connection with the quarantine restrictions related to the pandemic of coronavirus disease of COVID-19, only the first stage of assets assessment was held.

The share capital grew by UAH 156,810 thousand to UAH 795,914 thousand in 2020, in particular, as a result of contributions to the share capital of retained earnings of prior years.

In July 2020, 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 # 34/1/2020 on registration of share issue and the new nominal value of UAH 258.96 per share for the total amount of UAH 795,914 thousand.

As at 31 December 2020, PJSC “BANK VOSTOK” submitted documents to the National Commission for Securities and Stock Market (the “NCSSM”) to register the issue of shares as a result of increase in the share capital through the increase in the nominal value of shares to UAH 273.94 per share for the total amount of UAH 841,955 thousand (the procedure of increasing the share capital was completed in February 2021).

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

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 2020, the Bank maintained its 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 2020 amounted to UAH 857,762 thousand (at the end of 2019: UAH 893,484 thousand);
- Cash on accounts with the NBU at the end of 2020 amounted to UAH 524,160 thousand (at the end of 2019: UAH 407,234 thousand);
- Correspondent accounts with other banks at the end of 2020 amounted to UAH 1,892,312 thousand (at the end of 2019: UAH 404,718 thousand);
- Investment securities at the end of 2020 amounted to UAH 5,269,798 thousand (at the end of 2019: UAH 1,612,575 thousand).

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.

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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.

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

Based on the 2020 performance, the Bank received profits in the amount of UAH 149,490 thousand.

In May 2021, the Bank is planning to register the increase in share capital by the amount of UAH 142,015 thousand at the cost of profits of the reporting year of 2020. The increase in share capital will make it possible for the Bank 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 91% to 95%. 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-purposeness, 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 1,000,000 thousand 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 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 their 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.

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

- Attracting a subordinated debt. As at 31 December 2020, the carrying value of the subordinated debt amounted to UAH 111,740 thousand (31 December 2019: UAH 92,455 thousand).
- 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 8,000 thousand. 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 8,000 thousand.

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 2020, the number of the Bank’s employees amounted to 1,091 persons, of which 70% were women and 30% – men. Almost 85% of the Bank’s employees have complete higher education. Over 75% of employees have the age in the range from 25 to 49 years old, with the average 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 to mobilize them for continuous and consistent improvement of the Bank’s economic performance, which is realized through:

- Selecting qualified and interested 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;

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- 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 qualifications.

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 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’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.

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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. The Bank is not planning to reduce the number of employees or change their remuneration.

The Bank’s attitude towards issues of respect to human rights, protection of employees’ rights, ensuring equal rights and relationships between employees and the Bank is determined by internal documents, in particular, the Corporate Code of PJSC “BANK VOSTOK” which presupposes formalizing in the Bank’s activities general obligatory norms of behavior and corporate ethics, specifically:

- Complying with human rights and personal dignity, creating equal possibilities for executives and other employees. The Bank values its executives and other employees, creates for them working conditions in accordance with the regulations on labor protection, ensures the compliance with the legislation requirements to rights of executives and other employees in the sphere of labor protection, encourages them for successes in work, and expects from them high standards of corporate ethics and professional achievements. The Bank is not against when executives and other employees are engaged in other legitimate activities (entrepreneurial, political, research) if it is performed off work and does not affect the ability to fulfill their obligations in a diligent and qualitative manner as determined by the internal regulations, does not create a conflict of interests, except for the cases when occupation by other types of activities is directly forbidden by the effective legislation of Ukraine.
- Relationships between executives and other employees, irrespective of the position occupied or area of activities, are built in compliance with the principle of mutual respect and collaboration, discipline and subordination, openness and friendliness, team work and focus on cooperation, sociability of management in respect of other employees, ensuring equal opportunities for all subordinates in fulfilling their obligations, supporting the initiative, open-mindedness, and fair evaluation of employees’ deliverables, granting possibilities, without a risk of punishment, for confidential notification (‘whistle-blowing’) about inappropriate behavior/violation, including through notifying to the Supervisory Board.
- Prohibiting that employees display any form of disrespectful or offensive attitudes towards each other and fail to comply with general obligatory norms of behavior and corporate ethics.

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The Bank’s employees form a basis of its reputation. Therefore, relationships between the Bank and its employees are built, on the one hand, on ensuring the Bank’s respect to human rights, equality, protection of employees’ rights and, on the other hand, on making the employees aware that any non-ethical or non-social actions committed by them on working places or off-work, unacceptable behavior may inflict harm to the Bank’s reputation.

An integral part of the Bank’s Corporate Code is the policy on prevention of corruption. The Bank’s policies on prevention of corruption are based on the principles and measures established by the Corporate Code and Anticorruption Policies of PJSC “BANK VOSTOK”, which presuppose the following:

- Creating the effective mechanisms, procedures, control and other measures aimed at preventing corruption;
- Developing in executives and other employees “zero tolerance” towards corruption occurrences;
- Developing in executives and other employees, customers and counterparties shared understanding of the Anticorruption Policies;
- Minimizing risks of involvement of the Bank, its executives and other employees in corruption actions;
- Making the Bank’s management bodies aware of corruption crimes committed by the Bank’s executives and other employees and measures undertaken in the course of corruption prevention.

Anticorruption compliance is an integral part of the Bank’s compliance system.

Key measures on corruption prevention in the Bank’s activities include the following:

- Implemented controls on compliance of executives and other employees with the legislation requirements on preventing and counteracting corruption in the course of fulfilling by them their functional duties;
- Restrictions determined by the Bank’s Corporate Code in respect of making representative expenses/organizing representative events and giving/receiving gifts by executives and other employees of the Bank in the course of performing their official functions;
- Established bans, norms, and requirements for the purpose of preventing fraud on behalf of executives and other employees in the course of their interaction with the government authorities, controlling agencies, and other executives, the executives of customers and counterparties;
- Organizing trainings and implementing measures on disseminating information about the Bank’s anticorruption actions;
- Reinforcing the duty in respect of immediate notification by employees about any attempts to inducing them to corruption offences, about any corruption crimes committed by other employees/executives or other parties in relation to the Bank or in the interests of the Bank in relation to other parties.

In its activities, the Bank adheres to the principle of non-acceptance of corruption, i.e. “zero tolerance”, irreversible punishment for any displays of corruption, bribery, and fraud.

The Bank, at least on an annual basis, assesses separately the corruption risk based on the combination of major categories of social indicators for corruption that are used in international and domestic practice.

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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.

Charitable and sponsorship aid expense

During 2020, payments to charitable and sponsorship aid amounted to UAH 7,519 thousand, of which:

- Recurring charitable assistance to chess organizations, including the Union of Chess and Checkers Clubs and the Odesa City Chess Federation to conduct different chess tournaments for children, as well as chess players of all age categories. In particular, in the period from 27 July to 5 August 2020, the super-final of the Open Chess Championship of Odeska Region took place. The tournament was devoted to the memory of Yukhym Geller, the outstanding grandmaster from Odesa. 10 chess players from four countries: Ukraine, Belgium, France, and Czech Republic, participated in the championship. The Bank acted as a sponsor of the chess tournament.
- Assistance to LLC “Afina +” in conducting intellectual contests of “What? Where? When?” in the school league for the 2020 season, and, also, holding the Open Cup Odesa Contest “What? Where? When?” named after Leonid Chernenko.
- Charitable assistance to PU “Soccer Association of Mykolaivska Region” and the Odesa Soccer Fund to develop and popularize football among broad population, conduct different soccer championships and tournaments.
- Assistance to an orphanage in Odesa to purchase food products for children.
- Assistance to people suffering from serious diseases.
- Assistance to Charitable Foundation “Myloserdia Viktor”. The Foundation 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 2020, the Bank provided assistance to the Foundation in purchasing artificial lung ventilation apparatuses for medical institutions, sets for PCR tests to identify COVID-19, and funds to assist the most vulnerable segments of people.
- Charitable assistance to CF “Corporation of Monsters” to purchase oxygen concentrators to be transferred base hospitals in Odesa and Odeska Region.
- Assistance to All-Ukrainian Professional Association of Entrepreneurs to purchase drugs and medical equipment for the City Clinical Hospital of Infectious Diseases in Odesa.
- Charitable assistance to the Odesa Regional Organization of the Ukrainian Red Cross Society to undertake measures aimed at preventing the contraction and spread, localization and liquidation of epidemics and pandemic of coronavirus disease in the city of Odesa, in particular, to purchase a gasifier for the needs of the City Clinical Hospital of Infectious Diseases, sets for intravenous infusion and air ventilation of lungs for the needs of the City Clinical Hospital # 10, artificial lung ventilation apparatuses and air compressors for the needs of base hospitals in Odesa.

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- Charitable financial aid to Charitable Foundation “Health of Chornomorsk” to struggle the spread of coronavirus disease. With the help of the Bank, three new artificial lung ventilation apparatuses were purchased for hospitals in the city of Odesa.
- Insurance of medical workers against coronavirus disease.
- Assistance to Charitable Organization “Charitable Foundation Kiddo”, children with serious diseases.
- Charitable assistance to the Poltava Regional Charitable Organization “Fund for Safety of Vital Activity” to support fire emergency units in the region.
- Charitable assistance to support the Ukrainian culture and popularize the events organized by SE “Kharkiv National Opera and Ballet House”. PJSC “Bank Vostok” became a General Partner of the Kharkiv Opera House.
- Assistance to Charitable Organization “Golden Violins” to arrange and prepare the Sixth International Musical festival “Golden Violins” that was held in the city of Odesa in the period from 16 September to 19 September 2020.
- Support of the Festival KharkivMusicFest. The Festival consisted of a series of concerts given by classical music world stars, bright cultural and educational events, and social program.
- Support of online concerts of the Odesa Philharmonic Orchestra, as well as Musical Festival of BLACK SEA MUSIC FEST, with participation of world-class stars.
- Assistance to purchase a musical instrument for students of Municipal Out-of-School Educational Institution “Children’s Musical School # 1 of the City of Odesa”.
- Assistance to the National Union of Artists of Ukraine to repair premises as a result of fire in the building and arrange an exhibition.
- Sponsorship aid to the Oleksii Stavnitser Foundation to arrange Charitable Festival of Vintage Charity Market & Sova Picnic held in the Odesa Art Museum for the purpose of collecting funds to purchase medical equipment for premature children.
- Assistance to 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.
- Assistance to the Mykolaiv Jewish Religious Community to arrange and hold national holidays, publish the newspaper “Yakhad”, and other religious activities.
- Assistance to Association of Jewish Organizations and Communities “Vaad of Ukraine” to assist low-income individuals.
- Assistance to Charitable Organization “ARTEMES” to expenditures on creative work of the Jewish Song Theater “Shemesh”.
- Assistance to Public Organization “World Club of Odesa Residents”. The Club 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.
- Assistance to Public Union “BUSINESS Incubator GROUP” to support entrepreneurship development of small and medium business.
- Other charitable expense to foundations and public and religious organizations, other legal entities.

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The Bank continued to provide charitable financial aid to the Righteous among the Nations, in particular Danilanz, O. H.

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

Specialized 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 – PJSC “EUROTRANSTELECOM”, PJSC “Data-Group”, PJSC “Farlep-Invest”, LLC “SPC VOLZ”, and others. The Bank operates ABS SR-Bank v.10 (developed by LLC “Soft-Review”, Kyiv, Certificate # SEPO0011).

The unified information system created in the Bank 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 corporate governance which functions in accordance with the effective legislation, regulations of the National Bank of Ukraine, and internal documents of the Bank.

The Bank’s risk management system is based on the Strategic Development Plan of the Bank, Risk Management Strategies, the Declaration on Risk Appetite, the Corporate Code, 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 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) and envisages segregating the duties among subjects of the Bank’s risk management system by using the model of three lines of defense.

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Risk management process is of fundamental importance for maintaining the Bank’s stable profitability, and each individual employee of the Bank is responsible for managing risks.

To ensure the effective functioning of the whole risk management system, the Bank has implemented the culture of managing risks that ensures the awareness and engagement of the Bank’s management and other employees of the Bank in risk management. The Bank’s employees receive knowledge and skills in the culture of managing risks and compliance with the Corporate Code through systematic and regular trainings; and the correct use by the Bank’s executives and employees of risk management tools in day-to-day activities is based on open and active communications within the Bank in respect of corporate values and culture of managing risks.

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:

- It has developed and implemented the Declaration on Risk Appetite that determines the total level of risk appetite and types of risks that the Bank intends to accept or avoid in order to achieve its business goals, as well as risk appetite level for each type of risk. The Bank undertakes to monitor risk appetite indicators on a consistent basis in order to prevent their possible violation, ensure timely reporting about risk profiles to collegiate bodies and free communication between lines of defense for the purpose of early identification of potential risks and effect of any those factors, etc. To ensure the effective monitoring and reporting about the Bank’s risk profiles, Risk Management Department has developed a range of information systems that ensure the analytics and visualization of the required information/indicators, including in dynamics and by all required breakdowns.
- The Bank has complemented the system of limits and restrictions on risks, with the help of which the Bank monitors the acceptable level of risks.
- To ensure the effective management of non-performing assets and decrease the level and volumes of such assets, the Bank has developed and implemented the system of early response in respect of timely identification of potentially non-performing assets, strategy for managing non-performing assets, and operating plan, as well as other internal documents on organization of the work on managing non-performing assets.
- The Bank has improved the processes and procedure of calculating expected credit losses under IFRS.
- The Bank has conducted work on the development and testing of the Bank’s Business Recovery Plan.

In connection with introduced amendments in late 2020 to Resolution of the NBU’s Board # 64 dated 11 June 2018 “On Approval of Regulation Regarding the Organization of Risk Management System in Banks of Ukraine and Banking Groups”, the Bank continued work on revising its regulatory framework in respect of risks for the purpose of implementing new requirements in the Bank’s internal documents and introducing them to the Bank’s operations, in particular, norms on the control of property valuation for the purpose of minimizing credit risks.

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:

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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, maintaining 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 (Value at Risk) 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.

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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 and managing conflicts of interest that may arise at all organization levels of the Bank’s organization structure;
- 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 relationships of the Bank with all stakeholders;
- Complying with a “tone at the top” principle and maintaining a spotless reputation by management of the Bank;
- Complying with a “zero tolerance” principle, unavailability 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 and the Anticorruption Policies;
- 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;
- Implementing the culture of risk management and culture of control that ensure the awareness and engagement of the Bank’s management and other employees of the Bank to the system of risk management and internal control;
- Ensuring transparency in realizing the Bank’s processes;
- 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;

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- 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;
- Reporting by Compliance Department to the Bank’s management on the level of compliance risk;
- 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 and internal control 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 and ensure its financial stability;
- Complying with its strategic development plan;
- 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 on behalf of customers and other stakeholders 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;

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- 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 arranging 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 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.

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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 2020, 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 had no effect on its performance.

Performance and key performance indicators and further development prospects

In 2020, 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 2020 amounted to UAH 16,257,270 thousand, which was by UAH 5,566,387 thousand, or 52%, more than in the previous year (31 December 2019: UAH 10,690,883 thousand).

The Bank’s assets as at 31 December 2020 had the following structure:

Loans to customers amounted to UAH 7,021,936 thousand, or 43%, of total assets (31 December 2019: UAH 6,523,854 thousand, or 61%, of total assets).

Cash with the National Bank of Ukraine and due from other banks amounted to UAH 2,061,053 thousand, or 16%, of total assets (31 December 2019: UAH 1,226,800 thousand, or 11%, of total assets).

Cash and cash equivalents amounted to UAH 857,762 thousand, or 5%, of total assets (31 December 2019: UAH 893,484 thousand, or 8%, of total assets).

Portfolio of investments in securities amounted to UAH 5,269,798 thousand, or 32%, of total assets (31 December 2019: UAH 1,612,575 thousand, or 15%, of total assets).

Premises and equipment and intangible assets amounted to UAH 138,748 thousand, or 1%, of total assets (31 December 2019: UAH 139,234 thousand, or 1%, of total assets).

Right-of-use assets amounted to UAH 61,314 thousand, or 0.4%, of total assets (31 December 2019: UAH 75,430 thousand, or 0.7%, of total assets).

Other financial assets amounted to UAH 277,614 thousand, or 2%, of total assets (31 December 2019: UAH 190,389 thousand, or 2%, of total assets).

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Other non-financial assets amounted to UAH 26,295 thousand, or 0.2%, of total assets (31 December 2019: UAH 26,623 thousand, or 0.2%, of total assets).

In 2020, the Bank's equity increased by UAH 146,110 thousand, or 16.50%, and, as at 31 December 2020, amounted to UAH 1,031,776 thousand.

Based on its performance, in 2020, the Bank received net profit in the amount of UAH 149,490 thousand, which was by UAH 15,598 thousand, or 9%, less than in 2019.

Net services and commission income of the Bank for 2020 amounted to UAH 443,404 thousand, which was by UAH 110,758 thousand, or 33%, more than in 2019. The largest portion in services and commission income (UAH 302,993 thousand, or 68%) referred to fees and commissions on cash and settlement transactions with customers.

Gain on foreign currency transactions of the Bank in 2020 amounted to UAH 49,357 thousand, which was by UAH 3,232 thousand, or 7%, more than in 2019 (UAH 46,125 thousand).

Operating income of the Bank for 2020 amounted to UAH 26,044 thousand, which was by UAH 6,606 thousand, or 34%, more than in 2019. A major component of operating income (UAH 24,494 thousand, or 94%) was gain on implementation of a joint marketing program with MasterCard.

Operating expense of the Bank in 2020 grew by UAH 162,567 thousand, or 19%, and amounted to UAH 1,018,407 thousand. Staff related costs amounted to UAH 471,736 thousand, or 46%, of operating expense.

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

During 2020, the volume of loans granted (net of allowances for impairment of loans) decreased by UAH 491,348 thousand, or 7%, to UAH 7,255,665 thousand as at 31 December 2020.

During 2020, the volume of loans granted to legal entities (net of allowance for loan impairment) increased by UAH 536,214 thousand, or 8%, and, as at 31 December 2020, amounted to UAH 7,196,848 thousand. The Bank provided lending to entities of trade (44% of loan portfolio to legal entities), manufacturing (14%), agriculture and food processing (14%), transport and communication (11%), construction and real estate (6%), and other (11%).

The volume of loans granted to individuals (net of allowance for loan impairment) decreased by UAH 44,866 thousand, or 43%, and, as at 31 December 2020, amounted to UAH 58,817 thousand.

As at 31 December 2020, total gross value of loans granted to top 10 borrowers of the Bank amounted to UAH 1,711,428 thousand, or 24%, of total loan portfolio. In addition, as at 31 December 2020, loans to top 10 borrowers of the Bank were partially secured by the pledge of property rights to deposits in the amount of UAH 210,404 thousand.

Due from other banks, as at 31 December 2020, amounted to UAH 2,076,893 thousand, which was by UAH 1,257,327 thousand, or 153%, more than as at 31 December 2019.

Term deposits placed with other banks amounted to UAH 184,581 thousand, or 9%, of total due from other banks.

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Investments in securities as at 31 December 2020 amounted to UAH 5,269,798 thousand, which was by UAH 3,657,223 thousand, or 227%, more than as at 31 December 2019.

Securities portfolio comprised the following:

- Domestic government loan bonds (“DGLBs”) in the amount of UAH 1,543,122 thousand;
- Deposit certificates issued by the NBU in the amount of UAH 3,501,147 thousand.

The Bank’s liabilities increased by UAH 5,420,277 thousand, or 55%, and, as at 31 December 2020, amounted to UAH 15,225,494 thousand.

The volume of balances and customer funds on current accounts for 2020 increased by UAH 3,322,464 thousand, or 51%, and, as at 31 December 2020, amounted to UAH 9,777,164 thousand, which was 64% of the Bank’s total liabilities.

As at 31 December 2020, balances on current accounts of legal entities amounted to UAH 7,651,332 thousand, or 78%, of total customer accounts.

As at 31 December 2020, included in current account balances were deposits “on demand” in the total amount of UAH 474,352 thousand (31 December 2019: UAH 126,758 thousand), of which UAH 87,138 thousand belonged to individuals (31 December 2019: UAH 62,257 thousand), and UAH 387,214 thousand to legal entities (31 December 2019: UAH 64,501 thousand). Interest rates on such deposits amounted to the range from 0.01% to 12.16% p.a., depending on the account balance.

As at 31 December 2019, total amount of cash of the Bank’s top 10 customers on current accounts amounted to UAH 2,674,572 thousand (31 December 2019: UAH 1,813,763 thousand).

Included in customer accounts were balances in the total amount of UAH 567,979 thousand (31 December 2019: UAH 477,911 thousand) placed by customers as a collateral in the total amount of UAH 448,333 thousand (31 December 2019: UAH 451,309 thousand).

Deposit portfolio of the Bank during 2020 increased by UAH 2,213,029 thousand, or 89%, and, as at 31 December 2020, amounted to UAH 4,713,143 thousand, which was 31% of the Bank’s total liabilities.

Deposits of legal entities amounted to UAH 2,422,865 thousand, or 51%, of total deposit portfolio of the Bank.

Deposits of individuals amounted to UAH 2,290,278 thousand, or 49%, of total deposit portfolio.

As at 31 December 2020, total amount of cash of the Bank’s top 10 customers on deposit accounts amounted to UAH 2,384,806 thousand, or 51% (31 December 2019: 29%) of total deposit portfolio.

During 2020, due to other banks decreased by UAH 136,435 thousand, or 63%, and, as at 31 December 2020, amounted to UAH 79,986 thousand, which amounted to 1% of total liabilities.

As at 31 December 2020, the largest amount of due on correspondent accounts and overnight deposits was due in the amount of UAH 68,821 thousand to one non-resident bank, which was 86% of total due on correspondent accounts and overnight deposits of other banks.

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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 rendering 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 2021:

- Achieve stable profitability of operations in 2021;
- Work on attracting to servicing the partners of Fozzy Group;
- Implement a range of measures on realizing a co-branding project of Bank Vostok-Fozzy Group;
- Develop partnership programs with the Bank’s customers, factoring;
- 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;
- Operate with precious metals;
- Create a unified payment system.

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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 2021, the Bank is planning to expand its participation in national and regional programs on support of small and medium business (“SMB”) and agribusiness entities, participation in the new program of government guarantees, development of leasing line of business, and transfer of the Bank to 24/7 mode of work on e-payment system.

In 2021, the Bank is planning to implement electronic document workflow.

As for payment card transactions, in 2021, the following projects are planned to be realized:

- “Purchase with Cashback”, with a possibility to replenish a card by cash at the supermarket checkout;
- Connect the online store of fora.ua to e-commerce;
- Install on POS-terminals the functionality of cash transfer from a card to account (C2A);
- Introduce payment by instalments for the Bank’s cards;
- Receive the certificate of PCI DSS;
- Migrate cards of Visa to the new protocol of EMV 3DS, with One-time Password (OTP) authentication;
- Support the technology of Out-of-Band Management (OOB), with push messages sent to the Bank’s mobile application, with further connection of the cards registered in the application to biometric authentication;
- Migrate from the payment card management system of Is-Card to Solar On-line Back Office;
- Launch a co-brand program of “The Bank’s Own Account”;
- Issue virtual prepaid card VISA for Paycell project.

To attract new customers and expand the Bank’s presence in the cities of Ukraine in 2021, it is planned to open seven new outlets and close one outlet (due to low profit-making). Thus, as at 1 January 2022, the total number of outlets is planned to grow to 44. Also, it is planned to expand/move six outlets, in particular:

- Open outlets for VIP customers in the cities of Kharkiv and Kyiv;
- Open one full-functioning outlet in one of regional centers in Western Ukraine (Lutsk, Khmelnytskyi, Uzhhorod) where the Bank is not present to date;
- Open one retail outlet in each of the cities of Mykolaiv, Odesa, and Nova Kakhovka;
- Move Eastern Regional Department to new premises, move operating outlet # 3 to new premises, and open a new outlet in the city of Dnipro;
- Move to a new building outlet # 40 in the city of Kyiv, as a result of loss making activities and for the purpose of reducing administrative and business costs at the expense of decreased rental payments and staff costs;

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- Expand retail outlet # 6 in the city of Odesa, for the purpose of increasing operating space;
- Move full-functioning outlet # 37 in the city of Sumy to new premises, for the purpose of increasing operating space and bringing in line with the requirements to inclusion;
- Move outlets ## 8 and 38 in the city of Chornomorsk (Odeska Region.), for the purpose of increasing operating space.

During 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 operations) through 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 2021, 73 banks were registered and had licenses for conducting banking transactions.

The National Bank of Ukraine set the following criteria for determining separate groups of banks (as at 1 January 2020):

- Group I: Banks with a state-owned share (in which the state owns a share of over 75%) – 5 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) – 48 banks.

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

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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 comprehensive servicing of the sphere of consumer interests of the Bank’s customers and their partners.

Number of customers	1 January 2021	1 January 2020
Legal entities	17,472	15,161
Individuals	378,028	340,768
Total	395,500	355,929

Cash of individuals attracted to current and deposit accounts made up, as at the reporting date, 27% of liabilities, which was by 3% less than at the beginning of the year.

Cash of legal entities attracted to current and deposit accounts made up, as at the reporting date, 62% of liabilities, which was by 8% higher than at the beginning of the year.

For the reporting period, significant changes occurred in the structure of the Bank’s assets. At the end of the reporting period, a share of loans to customers amounted to 43% of assets, which was by 18% lower than the same indicator at the beginning of the year. Investments in securities amounted to 32% of assets and increased by 17% compared to 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 (both registered and unregistered) made up 82% of the Bank’s equity, which is the factor that evidences of the growth in reliability and improved stability of the Bank.

Indicators of the Bank’s performance efficiency:

Indicators	31 December 2020	31 December 2019
Financial result, UAH thousands	149,490	165,088
Return on assets, %	1.2	1.7
Return on equity (ROE), %	17.3	23.5
Net interest income before impairment losses/(reversal) on interest-bearing assets, UAH thousands	673,319	655,498

The decreased efficiency indicators are explained by the spread of COVID-19 pandemic, which has caused a significant drop in business activities in many industries.

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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 2020, 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.

Cash collection and transportation of valuables. In 2020, the Bank actively increased its volumes in cash collection services. The unit has 13 units of specialized vehicles. Staff of the service amounted to 35 employees, with the services rendered in the cities of Kyiv, Odesa, Chornomorsk, Mykolaiv, Kharkiv, and Sumy.

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 2020 amounted to UAH 7,020 thousand (117% against the volume for 2019).

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Retail business

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 providing 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’s Card”, “Green Theater’s Friend” Card, “Green Theater’s Guest” 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.

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.

In 2020, an opportunity appeared for replenishing cards in the outlets of Justin. During 2021, it is planned to conclude agreements and launch the cash transfer systems of PrivatBank – Privat Money and Oshchadbank – “My Transfer”.

Acceptance of utility payments. To increase services and commission income, during 2020, the Bank continued working on servicing the existing and entering into new agreements on accepting utility payments.

Individual safes. The Bank actively renders services on leasing out individual safes to its customers.

As at the end of 2020, the service on leasing out individual safes was available in Odesa, Kyiv, Dnipro, Mykolaiv, Poltava, Kharkiv, Lviv, Cherkasy, and Kryvyi Rih.

Servicing pension and social accounts. Based on the tender won on servicing pension and social accounts, during 2020, 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.

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Deposits. As at 31 December 2020, the Bank had the following deposit programs for the Bank’s individual customers:

- Deposit “Maksymalni” – 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 “Maksymalni” for the period of 6 months when the agreement is concluded on the birthday date or during 14 days after it.

As at 31 December 2020, the deposit portfolio of individuals amounted to UAH 2,290,278 thousand.

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.

Correspondent relations. In 2020, 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 2020, the Bank had 44 correspondent accounts of NOSTRO type opened in 14 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 11 currencies, which allows the Bank’s customers making settlements on foreign economic contracts in the shortest possible time, with conversion to 127 currencies of the world.

As at 31 December 2020, 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 entitled to perform the whole range of depository activities with securities. Depository Operations Department applies the Comprehensive System of Data Protection “DEPEND” in Information and Telecommunication System (“CSDP ITS”) of PJSC “National Depository 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.

During 2020, the Bank commenced investing in domestic government loan bonds ("DGBLs") and bonds of foreign countries, as well as brokerage transactions for customers with external government loan bonds and quasi-sovereign bonds of domestic state-owned entities.

Within the framework of those transactions, the Bank came to the international market, opened an account in securities, and entered into the General Trading Agreement with Raiffeisen Bank International (Austria).

Issuer's transactions. In April 2020, 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 # 2 dated 30 April 2020, the Bank's share capital was increased by UAH 156,810 thousand to the total amount of UAH 795,914 thousand through the increase in the nominal value of the Bank's shares by UAH 51.02 to the total value of UAH 258.96 per share.

Pursuant to the Shareholder's Decision # 6 dated 19 August 2020 on the increase in the Bank's share capital by UAH 46,041 thousand to the total amount of UAH 841,955 thousand through the increase in the nominal value of the Bank's shares, as at 31 December 2020, the Bank prepared and submitted to the NCSSM the package of documents on the issue registration of the Bank's shares at the new nominal value. As at 5 February 2021, the procedure on the increase in the Bank's share capital was completed.

Information about other services rendered by the auditing entity, other than statutory audit services. In 2020, LLC "Deloitte & Touche USC" rendered services on valuation of the quality of assets, acceptability of collateral under lending transactions, review on the adequacy of valuation of properties and valuation of the Bank's financial assets write-off as at 31 December 2019 for the purpose of assessing the resilience of banks and banking system of Ukraine in 2020.

LLC AF "KAUPERWOOD" provided to the Bank the services on review of the Bank's interim financial statements as at 31 March 2020 and 30 September 2020 for submitting a package of documents to register the issue of shares due to the increase in the Bank's share capital through the increase in the nominal value of shares.

LLC "Kreston GCG Audit" provided to the Bank the services on independent external valuation of the quality of work of the Bank's internal audit function.

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 28 April 2021:

Morokhovskiy, Vadym Viktorovych,
Chairman of the Management Board

Siuskova, Olena Petrivna,
Chief Accountant

