

PJSC “BANK VOSTOK”

Management Report, Financial Statements, and
Independent Auditor’s Report
for the Year Ended 31 December 2022

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 2022, and the statement of comprehensive income, profit or loss, 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 2022, 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.

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Notes 2 and 4 to the financial statements, since 24 February 2022 the impact of the ongoing military actions in Ukraine, the magnitude of further developments, the timing of cessation of those actions and final resolution are unpredictable and adversely affect the operations of the Bank. These conditions, along with other matters as set forth in Note 4, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as going concern. Management's plans concerning these matters are also discussed in Note 4 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Why the matter was determined to be a key audit matter

How the matter was addressed in the audit

Allowance for expected credit losses ("ECLs") on loans and advances to customers

The Bank assesses allowances for expected credit losses on loans and advances to customers by using models and techniques in accordance with the requirements of IFRS 9 "Financial Instruments".

The models and techniques applied in calculating expected credit losses use inputs from both external and internal sources, as well as comprehensive and subjective judgments of the Bank's management.

Key areas of judgments and estimates regarding the determination of the amount of expected credit losses on loans and advances to customers include:

- Assessment of default indicators to determine the impairment stage of loans and advances to customers;
- Assessment of expected credit losses, with reference to macroeconomic forecasts and historical information on the credit losses incurred on loans and advances to customers assessed on a collective basis;
- Assessment of scenarios of estimated future cash flows related to loans and advances to customers assessed on an individual basis.

Calculation of allowance for expected credit losses, by its nature, requires applying judgments. We believe this issue to be a key audit matter due to the methodology complexity, subjectivity of certain assumptions used in models, and materiality of the amount of loans and advances 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:

- We updated our understanding of the Bank's processes and controls for definition of a significant increase in credit risk and default risk, assessment of a probability of default and assessment of expected credit losses on loans and advances to customers.
- As for expected credit losses assessed on a collective basis, we independently assessed the appropriateness of methodologies applied in calculating allowance for expected credit losses used for material loan portfolios, with involvement of internal specialists on actuarial calculations and credit risk, in terms of their compliance with accounting standards and market practices. We also independently assessed the appropriateness of management's judgments regarding the calculation techniques used, segmentation, identification of a significant increase in credit risk, statistical periods for calculating probability of default indicators and recovery indicators, including macroeconomic adjustments. We checked the completeness and accuracy of the historical data used in collective models and reviewed the assumption regarding the projected data to external macroeconomic forecasts.
- By using all available information about default criteria, including the number of days past due, internal and external information about borrowers, we analyzed and assessed the correctness of determining the impairment stage for selected borrowers.

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

- As for expected credit losses assessed on an individual basis, we independently performed an alternative assessment of allowance for expected credit losses on selected customers based on internal and external information about customers.

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 and securities issuer's annual information, which also includes corporate governance report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and 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 10 October 2022. 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.

Pursuant to the "Requirements to the information applicable to the audit or review of the financial statements prepared by the capital market and organized commodity market participants supervised by the National Securities and Stock Market Commission (the "NSSMC")" No. 555 dated 25 July 2021 (the "NSSMC Requirements"), we report the followings:

- Information on the full legal name of the Bank, ultimate controlling party and the structure of the ownership is disclosed in Note 1 to the financial statements.
- As at 31 December 2022 the Bank was not a controlling party or participant of a non-banking financial group.
- The Bank is a public interest entity in accordance with the Law on accounting and financial reporting.
- As at 31 December 2022 the Bank had no subsidiaries.
- Prudential ratios, established by the NSSMC for relevant activity of professional participants in capital markets and organized commodity markets, are not applicable to banks that perform professional activities at stock markets in accordance with "Regulation on prudential ratios for professional activities at stock markets and risk management requirements" dated 1 October 2015.
- The creation of the Revision Commission is not stipulated by the Bank's Charter, and, accordingly, the report on the results of revision of financial and economic activity for the 2022 financial year was not prepared by such commission.
- Limited Liability Company "Deloitte & Touche Ukrainian Services Company" (USREOU code 25642478, <https://www2.deloitte.com/ua/uk.html>) have audited the Bank's financial statements according to the agreement No. Aud/2022/1147 dated 31 October 2022. The audit was conducted in the period from 31 October 2022 to the date of this report.

Basic Information about Audit Firm

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

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

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

1 June 2023

LLC "Deloitte & Touche USC"

Certified Auditor



Kateryna Yermoshyna

Registration Number in the Register of Auditors and Auditing Entities 102247

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

PJSC "BANK VOSTOK"

Statement of Financial Position

as at 31 December 2022

(in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	6	3,862,640	3,214,337
Loans and advances to banks	7	889,780	368,094
Loans and advances to customers	8	8,208,056	8,874,102
Investments in securities	9	6,332,462	6,310,164
Derivative financial assets	30	51,002	19,106
Deferred tax assets	26	10,809	2,577
Intangible assets other than goodwill	10	40,990	40,984
Property, plant and equipment	10	65,660	90,936
Right-of-use assets	11	78,163	83,169
Other financial assets	12	388,294	424,712
Other non-financial assets	12	42,500	58,176
TOTAL ASSETS		19,970,356	19,486,357
LIABILITIES			
Due to other banks	13	128,948	44,796
Customer accounts	14	17,485,345	17,383,980
Lease liabilities	11	79,530	77,720
Other borrowed funds	16	394,056	309,211
Provisions for loan commitments and financial guarantee contracts		5,652	1,336
Provisions for employee benefits		20,516	35,120
Other financial liabilities	15	48,875	69,613
Other non-financial liabilities	15	14,577	20,009
Current tax liabilities		25,108	19,383
Subordinated debt	17	278,949	206,792
TOTAL LIABILITIES		18,481,556	18,167,960
EQUITY			
Issued capital	19	1,255,432	983,950
Result from transactions with the shareholder		10,051	10,051
Retained earnings		276,725	286,985
Reserve and other funds of a bank	19	53,298	38,996
Other reserves		(106,706)	(1,585)
TOTAL EQUITY		1,488,800	1,318,397
TOTAL LIABILITIES AND EQUITY		19,970,356	19,486,357

Authorized for issue by the Management Board and signed on its behalf on 1 June 2023.

Morokhovskiy, Vadym Viktorovych,
Chairperson of the Management Board



Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

Statement of Comprehensive Income, Profit or Loss for the Year Ended 31 December 2022 (in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2022	For 12 months of 2021
Interest income	20	1,697,733	1,371,900
Interest expense	20	(618,819)	(428,851)
Net interest income (Net interest expense)		1,078,914	943,049
Commission income	21	1,090,455	977,663
Commission expenses	21	(392,398)	(380,285)
Net increase (decrease) from financial instruments at fair value through profit or loss	30	56,934	11,365
Net increase (decrease) from operations with debt financial instruments at fair value through other comprehensive income		685	1,017
Gain (loss) arising from derecognition of financial assets measured at amortised cost		(2,153)	3,935
Net increase (decrease) from trading in foreign currencies		223,266	48,406
Net increase (decrease) from foreign exchange translation		186,829	(21,939)
Other income		53	58
Other expense		(25)	(1,141)
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	22	(827,062)	(19,085)
Gains (losses) on initial recognition of financial assets at interest rates above or below market		18,490	13,710
Gains (losses) on initial recognition of financial liabilities at interest rates above or below market		(1,108)	6,621
Other operating income (expense)	23	(2,225)	8,579
Employee benefits expense	24	(539,190)	(558,505)
Depreciation and amortisation expense	10, 11	(120,492)	(136,490)
Other administrative and operational expenses	25	(434,428)	(547,859)
Profit (loss) before tax		336,545	349,099
Tax expense	26	(61,021)	(63,315)
PROFIT (LOSS)		275,524	285,784
Other comprehensive income/(loss):			
Components of other comprehensive income that will be reclassified to profit or loss, before tax:			
Gains (losses) on financial assets measured at fair value through other comprehensive income, before tax		(112,690)	(9,888)
Income tax relating to financial assets measured at fair value through other comprehensive income included in other comprehensive income		7,569	291
Total other comprehensive income		(105,121)	(9,597)
TOTAL COMPREHENSIVE INCOME		170,403	276,187
Ordinary shares		3,073,500	3,073,500
Basic earnings per share (UAH per share)		89.65	92.98

Authorized for issue by the Management Board and signed on its behalf on 1 June 2023.


Morokhovskiy, Vadym Viktorovych,
Chairperson of the Management Board



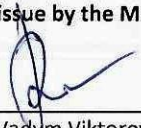

Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

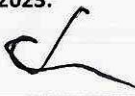
Statement of Changes in Equity for the Year Ended 31 December 2022 (in Ukrainian Hryvnias and in thousands)

	Notes	Issued capital	Result from transactions with the shareholder	Reserve and other funds of the bank	Other reserves	Retained earnings	Equity
Previous reporting period							
Equity at the beginning of the period		841,955	(383)	31,501	8,012	150,691	1,031,776
Changes in equity							
Comprehensive income							
Profit (loss)		-	-	-	-	285,784	285,784
Other comprehensive income		-	-	-	(9,597)	-	(9,597)
Total comprehensive income		-	-	-	(9,597)	285,784	276,187
Increase (decrease) through other changes, equity		-	10,434	-	-	-	10,434
Distribution of previous years' profit	19	141,995	-	7,495	-	(149,490)	-
Equity at the end of the period		983,950	10,051	38,996	(1,585)	286,985	1,318,397
Current reporting period							
Equity at the beginning of the period		983,950	10,051	38,996	(1,585)	286,985	1,318,397
Changes in equity							
Comprehensive income							
Profit (loss)		-	-	-	-	275,524	275,524
Other comprehensive income		-	-	-	(105,121)	-	(105,121)
Total comprehensive income		-	-	-	(105,121)	275,524	170,403
Distribution of previous years' profits	19	271,482	-	14,302	-	(285,784)	-
Equity at the end of the period		1,255,432	10,051	53,298	(106,706)	276,725	1,488,800

Authorized for issue by the Management Board and signed on its behalf on 1 June 2023.


Morokhovskiy, Vadym Viktorovich,
Chairperson of the Management Board




Siuskova, Olena Petrivna,
Chief Accountant

PJSC "BANK VOSTOK"

Statement of Cash Flows

for the Year Ended 31 December 2022

(in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2022	For 12 months of 2021
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Interest received		1,791,411	1,373,353
Interest paid		(576,628)	(411,025)
Commission income received		1,089,435	973,200
Commission expenses paid		(392,293)	(379,857)
Net increase/(decrease) from operations with financial instruments at fair value through profit or loss		20,125	(14,708)
Net increase/(decrease) from operations with foreign currencies		223,266	48,406
Other cash receipts from operating activities		11,393	24,173
Administrative expenses and other paid operating expenses		(432,357)	(545,236)
Payments to and on behalf of employees		(554,995)	(553,090)
Income taxes refund (paid)		(55,959)	(55,628)
Cash flows from (used in) operating activities		1,123,398	459,588
Net (increase)/decrease in loans and receivables of banks		(335,088)	(187,616)
Net (increase)/decrease in loans and advances to customers		819,473	(2,055,785)
Net (increase)/decrease in other financial assets		100,860	(157,513)
Net (increase)/decrease in other assets		20,910	(31,882)
Net increase/(decrease) in due to other banks		54,022	(27,257)
Net increase/(decrease) in customer accounts		(1,695,290)	3,173,429
Net increase/(decrease) in other financial liabilities		(20,233)	27,967
Net increase/(decrease) in other liabilities		2,417	2,630
Net cash flows from (used in) operating activities		70,469	1,203,561
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(23,461)	(45,923)
Purchase of intangible assets		(24,558)	(26,384)
Purchase of securities		(536,292,369)	(94,345,738)
Proceeds from sale and repayment of investments in securities		536,180,607	93,233,816
Net cash flows from (used in) investing activities		(159,781)	(1,184,229)

PJSC "BANK VOSTOK"

Statement of Cash Flows for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

	Notes	For 12 months of 2022	For 12 months of 2021
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Receipt of subordinated debt	18	-	105,368
Return of other borrowed funds	18	(14,218)	(52,897)
Payments of lease liabilities	18	(27,504)	(60,701)
Proceeds from borrowings	18	1,000,000	-
Repayment of borrowings	18	(1,000,000)	-
Payments of other equity instruments		-	(219)
Net cash flows from (used in) financing activities		(41,722)	(8,449)
Effect of exchange rate changes on cash and cash equivalents		779,337	(70,780)
Net increase (decrease) in cash and cash equivalents		648,303	(59,897)
Cash and cash equivalents at the beginning of the period	6	3,214,337	3,274,234
Cash and cash equivalents at the end of the period	6	3,862,640	3,214,337

Authorized for issue by the Management Board and signed on its behalf on 1 June 2023.


Morokhovskiy, Vadym Viktorovich,
Chairperson of the Management Board




Siuskova, Olena Petrivna,
Chief Accountant

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 *(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 2022 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 2022 and 2021, 100% of the Bank’s shares were held by LLC “Vostok Capital”.

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

The Bank provides banking services to individuals and legal entities, including attracting deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies, and other services. The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate No. 157 dated 19 November 2012), which operates under the Law of Ukraine “On Individual Deposit Guarantee System” No. 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 2022 and 2021, the Bank had 38 branches in Dnipropetrovska, Odeska, Khersonska, Mykolaivska, Lvivska, Cherkaska, Kyivska, Kharkivska, Poltavska, Zaporizka, and Sumyska regions. As at 31 December 2022, 3 branches in the city of Kherson, city of Chornomorsk, and village of Lymanka in Odeska region are not operating.

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

PJSC “BANK VOSTOK”

Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank

On 21 February 2022, Russia recognized the temporarily occupied territories in Luhanska and Donetsk regions as independent republics and, 24 February 2022, started its military invasion of Ukraine resulting in a full-scale war across the Ukrainian state. On 4 October 2022, president of the Russian Federation signed laws on annexation of parts of Luhanska, Donetsk, Zaporizka, and Khersonska regions that has been previously ratified by the country's Parliament.

The ongoing military attack has led to significant damage to infrastructure, dislocation of the population, and disruption to economic activities in Ukraine. Before August 2022, all ports in the Black Sea area stopped working, which resulted in complete suspension of exports and imports made via seaports. Airports, many roads, and bridges were closed, damaged, or destroyed, further crippling transportation and logistics. Transportation of goods inbound and outbound was performed by railway and trucks, as well with involvement of European carriers, which made it possible for most companies in Ukraine, effective from May-June 2022, to restore and arrange transportation and logistics of their products. On 22 July 2022, in Istanbul, representatives of Ukraine signed an agreement with Turkey and the United Nations on unblocking of ports and resumption of grain exports effective from 1 August 2022, which had been blocked in the Black Sea ports due to the war. The Russian Federation also signed a “mirror agreement” with Turkey and the United Nations. On 17 November 2022, in Istanbul, the parties agreed to extend the “grain agreement” for another 120 days, by 18 March 2023, respectively. For the period from the beginning of the agreement by the end of 2022, about 16.3 million tons of agricultural produce were shipped from the seaports of Ukraine.

In late April 2022, Ukraine also encountered a significant lack of fuel due to the need to create new logistics supply routes from Europe; the problem was resolved during May-June 2022. In October–December 2022, Ukraine witnessed massive power outages for the population and businesses due to a significant damage to power grids caused by shelling from the Russian Federation, which also caused problems with water and heat supply. The Government introduced a range of emergency measures to resolve those challenges and stabilize the economy. Effective from February 2023, the situation in the energy system of Ukraine improved and stabilized.

As a result of the military invasion of the Russian Federation and the start of the full-scale war, the economy of Ukraine suffered serious consequences. In 2022, the drop in Ukraine's GDP reached 30.3% (in 2021, real GDP grew by 3.2%). Starting from February 2022, the inflation rate increased in annual terms up and reached 26.6% by the end of the year (2021: 10.0%) because of the disruption of supply chains and production processes, uneven demand, increased business costs, increased global prices, limited supply of certain commodities, as well as physical destruction of assets of a range of companies caused by the Russian attack on Ukraine. The national currency devalued, according to the official exchange rates at the end of 2022, by 34% against USD and by 26% against EUR comparing to the averages at the end of 2021.

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Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank (continued)

From the onset of the full-scale war, the National Bank of Ukraine (the “NBU”) has introduced a range of temporary protective measures, such as restriction of cross-border payments in foreign currency, fixing the official exchange rate for major currencies (on 21 July 2022, the NBU adjusted the official UAH/USD exchange rate by 25% to UAH 36.5686 per USD 1). Despite the increase in the official exchange rate of USD, the disparity between the official and market exchange rates remains. From the beginning of the war, the NBU fixed the discount rate at the level of 10% due to the forced administrative restrictions, however, later, in June, it increased it to the level of 25%. In 2023, the NBU additionally tightened the requirements to obligatory reserves of banks. The NBU stated it would revert to the traditional format of inflation targeting with a floating exchange rate after the economy and financial system return to their normal operational mode.

At the same time, thanks to the assistance from partners, the NBU’s international reserves as at the end of 2022 exceeded the pre-war level and reached USD 28.5 billion. In August 2022, the Ministry of Finance of Ukraine postponed payments on sovereign Eurobonds for two years and amended the terms and conditions for issuing government derivatives by reducing financing needs. In general, the Ukrainian Government continues to service external debt obligations, and the banking system remains operational and maintains stability.

The approved state budget of Ukraine for 2023 presupposes that budget revenues be two times lower than expenditures, and the deficit will be about 21% of GDP (or USD 35.5 billion). It is expected that the budget deficit will be financed through financial assistance from foreign partners in the form of grants and preferential long-term interest-free loans.

The Ukrainian Government received a significant international support, financing and donations from international organizations, along with individual countries, and charities to support financial stability, social related payments, and military needs. During 2022, the volumes of declared international financial aid amounted to more than USD 65 billion, whereas the volumes of received international financial aid were at the level of more than USD 32 billion. The volumes of military assistance exceeded USD 16 billion and humanitarian – USD 41 billion.

On 15 March 2022, the Verkhovna Rada of Ukraine introduced some changes to the tax legislation and adopted the Law of Ukraine No. 2120-IX “On Amending the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period” (Note 24). Exporters face problems and delays in VAT refunds due to the need to conduct tax audits to receive refunds.

In March 2022, the system operator of the Ukrainian electricity network, together with European operators, completed integration of the Ukrainian and European energy systems.

On 23 June 2022, the European Council summit in Brussels decided to provide Ukraine with the candidate status to the European Union. Ukraine is going to become a participant of the EU programs and initiatives opened for candidates.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

2. Operating environment of the Bank (continued)

On 27 September 2022, the Cabinet of Ministers approved resolutions that would allow Ukraine join the Common Transit Convention and Convention on the Simplification of Formalities in Trade in Goods (the so-called “customs free regime”) from 1 October 2022. The resolutions open access to an unlimited range of Ukrainian businesses to authorizations and simplifications of joint transit procedures similar to those available to economic operators in the 35 member states of the Convention.

During 2022, the Government introduced zero quotas on exports of gold and silver (except for bank metals), buckwheat, table salt, fuel oil, and fuel wood. Exports of chicken meat, cattle, cattle meat, eggs, mineral fertilizers, rye, oats, millet, and sugar are subject to licensing. Exports of gas are prohibited.

The war between Ukraine and the Russian Federation is ongoing, resulting in a significant destruction of property and assets in Ukraine and other serious consequences. The consequences of the war are changing day to day, and the long-term implications are unclear. Further impact on the Ukrainian economy depends upon the way the Russian military invasion in Ukraine is resolved and upon the success of the Ukrainian Government in realization of new reforms, recovery strategy after the invasion is stopped, and the transformation of the state to acquire the European Union membership, as well as cooperation with the international funds.

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 2022, but they have not had any material impact on the Bank’s operations and the financial statements:

- Annual Improvements to IFRS 2018-2020 cycles.
- Amendments to IFRS 3 “Business Combinations” – Definition of a business. Reference to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 16 “Property, Plant, and Equipment” – Proceeds before the intended use of property, plant, and equipment items.
- Amendments to IAS 37 “Provisions, Contingent Liabilities, and Contingent Assets” – Onerous contracts: Cost of fulfilling a contract.

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

3. Adoption of new Standards and amendments thereto (continued)

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

Standards/Interpretations	Effective for the annual accounting periods beginning on or after:
IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates, and Errors” – Definition of accounting estimates	1 January 2023
Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 – Disclosure of accounting policies	1 January 2023
Amendments to IAS 12 “Income Taxes” – Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IAS 1 “Presentation of Financial Statements” – Classification of liabilities as current or non-current (as part of Annual Improvements to IFRS 2010–2012 cycles)	1 January 2024
Amendments to IAS 1 “Presentation of Financial Statements” – Non-current liabilities with additional conditions	1 January 2024
Amendments to IFRS 16 “Leases” – Lease liabilities in the course of sale or reverse lease	1 January 2024

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

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 (the “IASB”) and Interpretations issued by the IFRS Interpretations Committee (the “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 based on the assumption that the Bank is able to continue as a going concern for the foreseeable future despite the Russian military invasion of Ukraine on 24 February 2022 resulting in a full-scale war across the territory of Ukrainian, which is described in detail in Note 2.

When preparing the financial statements for 2022, the Bank’s management assessed the Bank’s ability to continue its activities in the future, considering the ongoing military operations on the territory of Ukraine, which have already caused and continue to cause significant negative consequences, both for the country’s economy as a whole and for the Bank’s clients.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

The Bank's management believes the ECL allowance continues to be one of the key factors of financial pressure on the Bank's financial result, although significant number of defaults and significant amount of ECL were recognized in 2022. Following the iterative assessment of the actual and perspective borrowers' payment discipline considering their business performance dynamic during war time, the Bank has estimated the potential worsening degree of the borrowers' performances, the possible default rates, and the probable change of the resulting ECL allowances. According to the Bank's management forecast, the expenses incurred to create the additional ECL allowances will not lead to a breach in the NBU's statutory requirements to capital adequacy. The assessment was based on the map of military activities at the end of April 2023.

The Bank monitors liquidity ratios on the regular basis. In managing liquidity risk in response to the negative liquidity gap of UAH 344,370 thousand (gap for maturity up to 1 year), the Bank assesses stable balance of customer accounts determined with the help of statistical methods for analysing historical information about fluctuations in balances on current customer accounts. For the years ended 31 December 2022 and 2021, minimum balances of customer accounts were estimated in the amount not less than UAH 13,251,405 thousand and UAH 13,472,252 thousand, respectively. In addition, as at 31 December 2022 investments in securities with the maturity date more than one year included debt securities issued by Ukrainian and foreign government authorities, that are not collateralised, with fair value of UAH 533,714 thousand, which could be sold by the Bank before maturity in extreme cases driven by the market participants to cover liquidity shortage.

According to the current assessment of the operational environment's dynamic, the Bank's financial projection (budget) for the year ended 31 December 2023 is following:

- There are active military actions at the occupied territories as of 31/12/2022 and with no new wide military aggression during planed horizon.
- No changes in NBU discount rate till the end of 2023.
- The forecasted exchange rate of UAH to USD at the level of 42.2 till the end of 2023.
- Total assets and liabilities will be almost at the level of 31 December 2022 with minor changes in the structure in comparison to 31 December 2022, namely:
 - increase of loans to clients, loans to other banks and investments in foreign securities with respective decrease of cash and cash equivalents, investments in domestic securities and NBU certificates of deposits;
 - increase of current accounts of customers and decrease of term deposits that will result in total insignificant increase of total customer accounts.
- The interest rates are kept at the level of December 2022.
- Net interest income will increase, mainly due to the increase of the interest income on loans to customers and decrease of interest expense due to the repayment of refinance loan from NBU before maturity in 2022.
- Net fee and commission income will decrease due to increase of fee and commission expenses.
- Staff costs and general and administrative expenses will increase slightly above the forecasted inflation.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

- The allowance for ECL is expected to increase in response to potential deterioration of loans to customers portfolio, taking into account the borrowers' operating location, the economic sector they are engaged into, their current financial standing, as well as the experience of the Bank from assessing the operations and the financial performance of the borrowers prior to and during the war.

The Bank has a long enough history of profitable activity, the successful experience of preventing losses during 2014-2015 crisis, successful experience of business transformation and risk management while COVID-19 pandemic and more than a year of experience in uninterrupted profitable activities in an unstable economy caused by military aggression and hostilities on the territory of Ukraine.

The Bank has the technical ability continues to carry out its operational activities and provide financial services to its clients in accordance with concluded contracts and current legislation. Based on the analysis of current and forecast performance indicators and potential expected credit losses amounts, caused by military actions, estimated liquidity indicators, the Bank's management believes there are appropriate grounds for these financial statements continue to be prepared on the going concern basis.

These facts indicate that, taking account of reasonably possible downsides, the Bank has adequate resources to continue in operational existence for the foreseeable future. However, due to the currently unpredictable effects of the ongoing War on the significant assumptions underlying management forecasts, management concludes that a material uncertainty exists, which may cast significant doubt about the Bank's ability to continue as a going concern and, therefore, the Bank may be unable to realize its assets and discharge its liabilities in the normal course of business.

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 (Net interest expense). Interest income and expense for all financial instruments, except for those classified as held for trading or those measured or designated as measured at fair value through profit or loss (FVTPL) are recognized on profit or loss accounts 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 and conditions 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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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.

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.

Commission income/expense. 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 comprehensive income, profit or loss include, among other things, fees charged for servicing loans, non-utilization commissions 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 and conditions on the borrower's initiative, etc.

Commission expenses with regards to services are accounted for as the services are received.

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

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

All recognized financial assets that are within the scope of IFRS 9 “Financial Instruments” are required to be subsequently measured at amortized cost or fair value on the basis of the 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 (SPPI) on the principal amount outstanding, are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g., debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

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

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

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

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

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

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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

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

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

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

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 another item 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”).

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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;
- Loans and advances to banks;
- Loans to advances to customers;
- Investments in securities;
- Other financial assets;
- Loan commitments.

No impairment loss is recognized on equity investments.

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

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

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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.

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 “Financial Risk Management”. 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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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 backstop if amounts are overdue for 90 days or more.

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

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

Key events that may evidence of default for a financial asset or a group of financial assets are described in detail in Note 27.

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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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

When a financial asset is modified, the Bank assesses whether this modification results in de-recognition. In accordance with the Bank's policy, a modification results in de-recognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

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

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

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

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

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

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

When the contractual terms of a financial asset are modified and the modification does not result in de-recognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition.

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

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

Where a modification does not lead to de-recognition, the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the 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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off of assets. Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a de-recognition event.

The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in increase in impairment gains.

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- For loan commitments and financial guarantee contracts: as a provision.

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

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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.

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 other revenue.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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.

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 assets 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.

Loans and advances to banks. Loans and advances to 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. Loans and advances to banks are carried at amortized cost.

Loans and advances to customers. Loans and advances to customers are initially measured at fair value or the equivalent amount, which is commonly net amount of the cash granted, including directly attributable costs and certain payments and fees for loan arrangement (commissions for loan arrangements, fees for loan commitments, and payments for services) that are treated as adjustment of the effective interest rate on a loan.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Loans and advances to customers are classified by the Bank on the basis of a business model and characteristics of contractual cash flows. As at the reporting date, loans and advances to customers are carried at amortized cost. Revenue from a loan, which represents interest, plus transaction costs and payments and fees included in the initial cost of the loan, is calculated by using the effective interest rate method and included in profit or loss over the period of the loan.

Investments in securities. This item includes investment securities that are classified by the Bank on the basis of a business model and characteristics of contractual cash flows. As at the end of the reporting period, the Bank included in that item the debt securities issued by foreign governments, government debt securities of Ukraine, municipal debt securities of Ukraine measured at fair value through other comprehensive income, and deposit certificates of the National Bank of Ukraine measured at amortized cost.

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

Gains and losses on assets 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 property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives (in years)</u>
Premises	20
Vehicles	5
Office and computer equipment	2-5
Leasehold improvements	1-3

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Intangible assets other than goodwill. 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 other administrative and operational expense. Depreciation period corresponds to a term of the lease liability.

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 comprehensive income, profit or loss.

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).

PJSC “BANK VOSTOK”

Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Changes in payments that are not lease modifications represent a change in the lease amount or lease compensation that was part of the original terms and conditions of the lease (e.g., event-based lease discounts). Such changes are not a result of modification of the lease agreement and are accounted for as variable lease payments, the effect of which is recognized in the statement of comprehensive income, profit or loss.

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 a non-derivative financial liability carried at amortized cost.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, public 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.

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

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

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

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

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.

Issued 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 (Result from transactions with the shareholder).

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 Note 33 “Events after the Reporting Period”. Distribution of profit and its usage otherwise occurs on the basis of the financial statements of the Bank. The Ukrainian legislation identifies the basis of distribution as retained earnings.

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

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

As at 31 December 2022 and 2021, major exchange rates established by the NBU that the Bank used in translating foreign currency denominated amounts were as follows:

	31 December 2022	31 December 2021
UAH/USD 1	36.5686	27.2782
UAH/EUR 1	38.9510	30.9226

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

4. Summary of significant accounting policies (continued)

Employee benefit expense. 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 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.

Definition of default. As explained in Note 4, an asset moves to Stage 3 when there are signs and events of default. The Bank uses one sign or a certain combination of them together with its own professional judgment when determining default, depending on the available qualitative and quantitative information, characteristics of borrowers, their assets, etc. 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 31 for more details on fair value measurement and Note 27 for more details on ECLs.

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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

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

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

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

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

Fair value measurement. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. 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 2022	31 December 2021
Cash	1,094,457	1,253,734
Correspondent account with the NBU	435,314	552,838
Correspondent accounts with other banks	2,312,481	1,407,765
Accounts with other payment systems (B2B Connect)	20,388	-
Total cash and cash equivalents	3,862,640	3,214,337

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

6. Cash and cash equivalents (continued)

As at 31 December 2022 and 2021, cash on correspondent account with the NBU was neither past due nor impaired and was classified in Stage 1 of allowance for expected credit losses and corresponded to the credit ratings of CCC+ and B, respectively.

Analysis by credit quality of correspondent account balances with other banks as at 31 December 2022 and 2021 was as follows:

	31 December 2022	31 December 2021
Stage 1		
A- to AA+ rated	2,202,444	1,376,182
BB- to BBB+ rated	84,190	3,722
B- to B+ rated	-	9,855
CCC rated	27,085	-
Unrated	250	18,480
Total on Stage 1	2,313,969	1,408,239
Allowance for expected credit losses (Stage 1)	(1,488)	(474)
Total correspondent account balances	2,312,481	1,407,765

Accounts with other payment systems in the amount of UAH 20,388 thousand are neither past due nor impaired and are classified to Stage 1 of allowance for expected credit losses and correspond to credit rating of AA-.

Credit ratings on correspondent accounts with other banks and correspondent account with NBU and accounts with other payment systems 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 2022 and 2021, included in the category of “Unrated” were funds in the amount of UAH 250 thousand and UAH 18,480 thousand, respectively, placed with the domestic banks that had no credit ratings assigned by international rating agencies.

As at 31 December 2022 and 2021, total balance on correspondent accounts with other banks, before allowance, on the accounts with five counterparty banks amounted to UAH 2,304,664 thousand and UAH 1,398,651 thousand, which represented 99.6% and 99.3% of balances on correspondent accounts, respectively.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

7. Loans and advances to banks

	31 December 2022	31 December 2021
Term deposits with other banks	890,871	369,067
Allowance for expected credit losses	(1,091)	(973)
Total loans and advances to banks	889,780	368,094

Analysis by credit quality of loans and advances to banks as at 31 December 2022 and 2021 was as follows:

	31 December 2022	31 December 2021
Stage 1		
A- to AA+ rated	889,076	305,521
BB- to BBB+ rated	117	93
B- to B+ rated	-	62,417
CCC- to CCC+ rated	666	-
Unrated	530	130
Total on Stage 1	890,389	368,161
Allowance for expected credit losses (Stage 1)	(609)	(741)
Stage 3		
BB- to BBB+ rated	-	188
B- to B+ rated	-	718
CCC rated or below	482	-
Total on Stage 3	482	906
Allowance for expected credit losses (Stage 3)	(482)	(232)
Total allowance for expected credit losses on loans and advances to banks	(1,091)	(973)
Total loans and advances to banks	889,780	368,094

Credit ratings on loans and advances to banks 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.

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

7. Loans and advances to banks (continued)

As at 31 December 2022 and 2021, balance of loans and advances to banks, before allowance, on the accounts with five counterparty banks amounted to UAH 889,842 thousand and UAH 367,666 thousand, which represented 99.9% and 99.9% of gross value of loans and advances to banks, respectively.

Analysis of loans and advances to banks by geographical concentration, foreign currency, and liquidity risks is presented in Note 27.

8. Loans and advances to customers

Loans and advances to customers were as follows:

	31 December 2022	31 December 2021
Loans to legal entities	9,058,654	9,000,801
Loans to individuals	113,353	101,797
Total loans and advances to customers, before allowance for expected credit losses	9,172,007	9,102,598
Allowance for expected credit losses	(963,951)	(228,496)
Total loans and advances to customers	8,208,056	8,874,102

Movements in allowance for expected credit losses on loans and advances to customers for the year ended 31 December 2022 were as follows:

	Loans to legal entities	Loans to individuals	Total
Allowance for expected credit losses as at 31 December 2021	224,750	3,746	228,496
Allowance/(decrease in allowance) for expected credit losses during the year	781,999	20,169	802,168
Adjustment of allowance on de-recognition	(69,965)	-	(69,965)
Loans sold/written off during the year	-	(202)	(202)
Interest adjustment	3,454	-	3,454
Allowance for expected credit losses as at 31 December 2022	940,238	23,713	963,951

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

Movements in allowance for expected credit losses on loans and advances to customers for the year ended 31 December 2021 were as follows:

	Loans to legal entities	Loans to individuals	Total
Allowance for expected credit losses as at 31 December 2020	230,284	3,445	233,729
Allowance/(decrease in allowance) for expected credit losses during the year	(14,798)	825	(13,973)
Adjustment of allowance due to modification of POCI loan	10,617	-	10,617
Loans sold/written off during the year	(2)	(524)	(526)
Interest adjustment	(1,351)	-	(1,351)
Allowance for expected credit losses as at 31 December 2021	224,750	3,746	228,496

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

	31 December 2022		31 December 2021	
	Amount	%	Amount	%
Trade	4,387,706	48	4,377,782	48
Agriculture, fishery, and food processing	1,826,139	20	1,714,366	19
Manufacturing	1,381,503	15	1,138,243	12
Transport and communication	739,651	8	908,159	10
Construction and real estate operations	266,781	3	499,092	5
Financial and investment operations	153,561	2	147,774	2
Loans to individuals	113,353	1	101,797	1
Tourist and hotel services, restaurant business	60,371	1	46,193	1
Other services	242,942	2	169,192	2
Total loans and advances to customers, before allowance for expected credit losses	9,172,007	100	9,102,598	100

As at 31 December 2022, total gross value of the loans granted to top 10 borrowers of the Bank amounted to UAH 1,856,485 thousand (31 December 2021: UAH 1,683,440 thousand), or 20% of the total loan portfolio (31 December 2021: 18%). At the same time, as at 31 December 2022, exposures of top 10 borrowers were partly covered by the collateral of property rights to deposits in the amount of UAH 329,055 thousand (31 December 2021: UAH 252,704 thousand).

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

The following table summarizes the proportionate amount of collateralized loans and advances to customers and not the fair value of collateral as at 31 December 2022:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	2,115,733	71,292	2,187,025
Loans collateralized by:			
- Residential real estate items	206,616	11,314	217,930
- Other real estate items	3,079,761	27,161	3,106,922
- Cash deposits	808,469	126	808,595
- Guarantees of the Cabinet of Ministers of Ukraine	362,837	-	362,837
- Other assets	2,485,238	3,460	2,488,698
Total loans and advances to customers, before allowance for expected credit losses	9,058,654	113,353	9,172,007

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 2022, loans and advances to customers with the total amount of UAH 808,595 thousand (31 December 2021: UAH 496,162 thousand) were secured by cash deposits (Note 14) for the total amount of UAH 950,989 thousand (31 December 2021: UAH 651,849 thousand).

As at 31 December 2022, impaired loans and purchased or credit-impaired loans with gross carrying value of UAH 1,103,947 thousand (31 December 2021: UAH 250,875 thousand) were secured by the collateral represented mostly by real estate and other assets in the amount of UAH 985,172 thousand (31 December 2021: UAH 248,241 thousand), or 89% (31 December 2021: 99%).

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.

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Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

The following table summarizes the proportionate amount of collateralized loans and advances to customers and not the fair value of collateral as at 31 December 2021:

	Loans to legal entities	Loans to individuals	Total
Unsecured loans	1,800,777	60,098	1,860,875
Loans collateralized by:			
- Residential real estate items	269,091	11,781	280,872
- Other real estate items	3,626,906	24,248	3,651,154
- Cash deposits	496,106	56	496,162
- Guarantees of the Cabinet of Ministers of Ukraine	35,750	-	35,750
- Other assets	2,772,171	5,614	2,777,785
Total loans and advances to customers, before allowance for expected credit losses	9,000,801	101,797	9,102,598

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

Analysis of loans and advances to customers by credit quality as at 31 December 2022 was as follows:

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not past due	4,829,638	72,738	4,902,376
- Past due less than 30 days	34,538	350	34,888
Total on Stage 1	4,864,176	73,088	4,937,264
Stage 2, loans with a significant increase in credit risk			
- Not past due	2,975,706	15	2,975,721
- Past due less than 30 days	25,483	-	25,483
- Past due from 31 to 90 days	126,929	2,632	129,561
- Past due from 181 to 360 days	31	-	31
Total on Stage 2, loans with a significant increase in credit risk	3,128,149	2,647	3,130,796
Stage 3, impaired loans			
- Not past due	72,170	1,344	73,514
- Past due less than 30 days	13,093	31	13,124
- Past due from 31 to 90 days	146	404	550
- Past due from 91 to 180 days	231,482	2,855	234,337
- Past due from 181 to 360 days	663,992	20,746	684,738
- Past due more than 360 days	15,298	12,238	27,536
Total on Stage 3, impaired loans	996,181	37,618	1,033,799
Purchased or originated credit impaired loans			
- Past due less than 30 days	7,840	-	7,840
- Past due from 31 to 90 days	62,308	-	62,308
Total purchased or originated credit impaired loans	70,148	-	70,148
Total loans and advances to customers, before allowance for expected credit losses	9,058,654	113,353	9,172,007
Allowance for expected credit losses	(940,238)	(23,713)	(963,951)
Total loans and advances to customers	8,118,416	89,640	8,208,056

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

Analysis of loans and advances to customers by credit quality as at 31 December 2021 was as follows:

	Loans to legal entities	Loans to individuals	Total
Stage 1			
- Not past due	8,240,846	89,224	8,330,070
- Past due less than 30 days	4,866	303	5,169
Total on Stage 1	8,245,712	89,527	8,335,239
Stage 2, loans with a significant increase in credit risk			
- Not past due	516,144	11	516,155
- Past due from 31 to 90 days	-	329	329
Total on Stage 2, loans with a significant increase in credit risk	516,144	340	516,484
Stage 3, impaired loans			
- Not past due	125,366	200	125,566
- Past due less than 30 days	-	122	122
- Past due from 31 to 90 days	-	11	11
- Past due from 91 to 180 days	-	1,012	1,012
- Past due from 181 to 360 days	-	201	201
- Past due more than 360 days	18,823	10,384	29,207
Total on Stage 3, impaired loans	144,189	11,930	156,119
Purchased or originated credit impaired loans			
- Not past due	23,456	-	23,456
- Past due less than 30 days	71,300	-	71,300
Total purchased or originated credit impaired loans	94,756	-	94,756
Total loans and advances to customers, before allowance for expected credit losses	9,000,801	101,797	9,102,598
Allowance for expected credit losses	(224,750)	(3,746)	(228,496)
Total loans and advances to customers	8,776,051	98,051	8,874,102

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

8. Loans and advances to customers (continued)

As at 31 December 2022, loans and advances to customers with the gross carrying value of UAH 512,808 thousand (31 December 2021: UAH 622,842 thousand) were transferred as a collateral to secure for the borrowing obtained from WORLDBUSINESS CAPITAL, INC., USA (Notes 16, 29).

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

Analysis of loans and advances to customers 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.

9. Investments in securities

Investments in securities were as follows:

	31 December 2022	31 December 2021
Investments in securities measured at fair value through other comprehensive income		
Government debt securities of Ukraine	1,184,159	4,386,998
Municipal debt securities of Ukraine	-	25,748
Debt securities issued by foreign governments	742,758	165,997
Total investments in securities measured at fair value through other comprehensive income	1,926,917	4,578,743
Investments in securities measured at amortized cost		
Deposit certificates of the NBU	4,405,545	1,731,421
Total investments in securities measured at amortized cost	4,405,545	1,731,421
Total investments in securities	6,332,462	6,310,164

As at 31 December 2022, the Bank created an allowance for expected credit losses on investments in securities measured at fair value through other comprehensive income in the amount of UAH 40,945 thousand (31 December 2021: UAH 43,132 thousand).

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

9. Investments in securities (continued)

Analysis of investments in securities by credit quality as at 31 December 2022 was as follows:

	Government debt securities of Ukraine	Municipal debt securities of Ukraine	Debt securities issued by foreign governments	Deposit certificates of the NBU	Total
Stage 1					
A- to AA+ rated	-	-	572,314	-	572,314
BBB- to BBB+ rated	-	-	170,444	-	170,444
C to CCC+ rated	-	-	-	4,405,545	4,405,545
Stage 2					
C to CCC+ rated	1,184,159	-	-	-	1,184,159
Total investments in securities	1,184,159	-	742,758	4,405,545	6,332,462

Analysis of investments in securities by credit quality as at 31 December 2021 was as follows:

	Government debt securities of Ukraine	Municipal debt securities of Ukraine	Debt securities issued by foreign governments	Deposit certificates of the NBU	Total
Stage 1					
A- to AA+ rated	-	-	97,134	-	97,134
BBB- to BBB+ rated	-	-	68,863	-	68,863
B- to B+ rated	4,386,998	25,748	-	1,731,421	6,144,167
Total investments in securities	4,386,998	25,748	165,997	1,731,421	6,310,164

Investments in securities have no collateral.

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

Analysis of investment in securities by interest rates risk and geographical concentration, foreign currency, and liquidity risks is provided in Note 27. Fair values of investments in securities are disclosed in Note 31.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

10. Property and equipment and intangible assets, other than goodwill

	Leasehold improve- ments	Vehicles	Office and computer equipment	Construction in progress	Total property and equipment	Intangible assets, other than goodwill	Capital investment in progress in intangible assets	Total intangible assets, other than goodwill
Cost as at 1 January 2021	34,228	27,794	263,883	4,578	330,483	83,550	1,121	84,671
Accumulated depreciation and amortization	(26,587)	(16,230)	(181,451)	-	(224,268)	(52,138)	-	(52,138)
Net book value as at 1 January 2021	7,641	11,564	82,432	4,578	106,215	31,412	1,121	32,533
Additions	6,580	1,814	38,173	-	46,567	20,699	7,221	27,920
Disposals	-	-	(44)	(600)	(644)	(1,536)	-	(1,536)
Depreciation and amortisation expense	(6,123)	(4,199)	(50,880)	-	(61,202)	(17,933)	-	(17,933)
Net book value as at 31 December 2021	8,098	9,179	69,681	3,978	90,936	32,642	8,342	40,984
Cost as at 31 December 2021	39,485	29,061	298,971	3,978	371,495	101,473	8,342	109,815
Accumulated depreciation and amortization	(31,387)	(19,882)	(229,290)	-	(280,559)	(68,831)	-	(68,831)
Net book value as at 31 December 2021	8,098	9,179	69,681	3,978	90,936	32,642	8,342	40,984
Additions	2,279	844	18,011	-	21,134	21,564	1,670	23,234
Disposals	-	-	(25)	(1,581)	(1,606)	(6,972)	-	(6,972)
Impairment	(574)	-	(450)	-	(1,024)	-	-	-
Depreciation and amortisation expense	(7,191)	(3,570)	(33,019)	-	(43,780)	(16,256)	-	(16,256)
Net book value as at 31 December 2022	2,612	6,453	54,198	2,397	65,660	30,978	10,012	40,990
Cost as at 31 December 2022	41,764	29,401	316,300	2,397	389,862	99,479	10,012	109,491
Accumulated depreciation and amortization	(39,152)	(22,948)	(262,102)	-	(324,202)	(68,501)	-	(68,501)
Net book value as at 31 December 2022	2,612	6,453	54,198	2,397	65,660	30,978	10,012	40,990

As at 31 December 2022, fully depreciated and amortized assets continued to be used by the Bank amounted to UAH 266,358 thousand (31 December 2021: UAH 208,450 thousand).

In 2022, the Bank recognized impairment on the property and equipment located in the city of Kherson.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

11. Right-of-use assets and lease liabilities

Right-of-use assets comprised the following:

	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2022	228,348	1,154	229,502
Accumulated depreciation as at 1 January 2022	(145,576)	(757)	(146,333)
Additions	-	7	7
Modifications	56,831	242	57,073
Disposals	(181)	(215)	(396)
Depreciation charges	(60,218)	(238)	(60,456)
Impairment of assets	(1,234)	-	(1,234)
Net book value as at 31 December 2022	77,970	193	78,163

	Buildings and other real estate items	Motor vehicles	Total
Cost as at 1 January 2021	149,533	759	150,292
Accumulated depreciation as at 1 January 2021	(88,464)	(514)	(88,978)
Additions	15,736	65	15,801
Modifications	70,225	402	70,627
Disposals	(7,146)	(72)	(7,218)
Depreciation charges	(57,112)	(243)	(57,355)
Net book value as at 31 December 2021	82,772	397	83,169

As at 31 December 2022 and 2021, 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.

In 2022, the Bank recognized impairment of right-of-use asset – leased premises of the branch located in the temporarily occupied territories in the city of Kherson.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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

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

	For 12 months of 2022	For 12 months of 2021
Depreciation and amortisation expense on lease liabilities	(60,456)	(57,355)
Interest expense on lease liabilities	(16,535)	(7,621)
Expense related to short-term leases	-	(476)
Expense related to leases of low-value underlying assets	(5,439)	(3,453)
Expense on a variable portion of lease payments	(764)	(251)
Expense on impairment of right-of-use assets	(1,234)	-
Income on discounts received for lease payments (a variable portion)	32,011	-
Total effect on financial gain or loss	(52,417)	(69,156)

Movements of lease liabilities were as follows:

	2022	2021
Lease liabilities as at 1 January	77,720	59,947
Increase in lease liabilities	61,325	78,474
Interest accrued (Note 18)	16,535	7,621
Decrease in lease liabilities as a result of discounts received and lease modifications (Note 23)	(32,011)	-
Lease liabilities repaid (Note 18)	(44,039)	(68,322)
Lease liabilities as at 31 December	79,530	77,720

Lease liabilities based on maturities are disclosed in Note 27.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

12. Other financial and non-financial assets

	31 December 2022	31 December 2021
<i>Other financial assets</i>		
Restricted cash	384,717	270,104
Accounts receivable on transactions with banks	-	137,005
Other financial assets	28,894	22,341
Total other financial assets, before allowance for expected credit losses	413,611	429,450
Allowance for expected credit losses	(25,317)	(4,738)
Total other financial assets	388,294	424,712
<i>Other non-financial assets</i>		
Deferred expense	23,278	22,104
Accounts receivable on assets and services purchased	12,856	24,750
Inventories	5,483	10,366
Reposessed collateral by the Bank	644	644
Taxes prepaid, other than income taxes	239	312
Total other non-financial assets	42,500	58,176
Total other financial and non-financial assets	430,794	482,888

As at 31 December 2022, restricted cash comprised the guarantee cover placed by the Bank within international payment systems of Visa and Master Card in the amount of UAH 379,350 thousand and cash cover in EXT LTD Cyprus for the purpose of marginal trade by banking metals in the amount of UAH 5,367 thousand (31 December 2021: UAH 266,151 thousand and UAH 3,953 thousand, respectively). This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand.

As at 31 December 2021, accounts receivable on transactions with banks are represented by advances of deferred payments under a letter of credit. This cash is neither available to finance the Bank's day-to-day operations nor returnable on demand.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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

Analysis of other financial assets by credit quality as at 31 December 2022 and 2021 was as follows:

	31 December 2022	31 December 2021
Restricted cash		
<i>Stage 2</i>		
A- to AA+ rated	379,350	266,151
Unrated	5,367	3,953
Total restricted cash	384,717	270,104
Allowance for expected credit losses on restricted cash	(5,483)	(4,036)
Accounts receivable on transactions with banks		
<i>Stage 2</i>		
- Not past due	-	137,005
Total accounts receivable on transactions with banks	-	137,005
Allowance for expected credit losses on accounts receivable with banks	-	-
Other financial assets		
<i>Stage 2</i>		
- Not past due	8,316	-
- Past due less than 30 days	1,072	21,889
<i>Stage 3</i>		
- Past due from 31 to 60 days	329	13
- Past due from 61 to 90 days	13,852	21
- Past due more than 90 days	5,325	418
Total other financial assets	28,894	22,341
Allowance for expected credit losses on other financial assets	(19,834)	(702)
Total other financial assets	388,294	424,712

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

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

13. Due to other banks

	31 December 2022	31 December 2021
Correspondent accounts and overnight deposits of banks	128,948	44,796
Total due to other banks	128,948	44,796

As at 31 December 2022, the largest exposure on correspondent accounts and overnight deposits of banks related to a non-resident bank and amounted to UAH 97,458 thousand, which represented 76% of total correspondent accounts and overnight deposits of banks (31 December 2021: UAH 30,284 thousand, which represented 68% of total correspondent accounts and overnight deposits of banks).

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

14. Customer accounts

	31 December 2022	31 December 2021
Current accounts		
- Current accounts of legal entities	10,727,332	9,669,945
- Current accounts of individuals	3,242,671	2,880,839
Total current accounts	13,970,003	12,550,784
Deposits		
- Deposits of legal entities	1,829,005	2,557,690
- Deposits of individuals	1,686,337	2,275,506
Total deposits	3,515,342	4,833,196
Total customer accounts	17,485,345	17,383,980

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

14. Customer accounts (continued)

As at 31 December 2022, included in current account balances were demand deposits totaling to UAH 90,377 thousand (31 December 2021: UAH 185,296 thousand), of which UAH 23,822 thousand related to individuals (31 December 2021: UAH 27,457 thousand) and UAH 66,555 thousand related to legal entities (31 December 2021: UAH 157,839 thousand). As at 31 December 2022, those deposits earned interest at the rates ranging from 0.1% to 9.5% p.a. (31 December 2021: ranging from 0.01% to 9% p.a.) depending on the remaining balance of the account and currency.

As at 31 December 2022, total amount of top 10 customers on current accounts of the Bank was UAH 3,526,056 thousand, or 25% (31 December 2021: UAH 3,472,866 thousand, or 28%) of total current accounts.

As at 31 December 2022, total deposits of top 10 customers of the Bank amounted to UAH 1,609,230 thousand, or 46% (31 December 2021: UAH 2,104,451 thousand, or 44%) of total deposits.

As at 31 December 2022, included in customer accounts were deposit balances totaling to UAH 950,989 thousand placed by customers as collateral to secure for loans and advances to customers (Note 8) in the amount of UAH 808,595 thousand (31 December 2021: UAH 651,849 thousand placed by customers as collateral to secure for loans and advances to customers in the amount of UAH 496,162 thousand).

As at 31 December 2022, included in customer accounts were balances totaling to UAH 37,045 thousand (31 December 2021: UAH 300,805 thousand) placed by customers as collateral to secure for loan commitments (Note 29).

Current accounts allocated by economic sectors were as follows:

	31 December 2022		31 December 2021	
	Amount	%	Amount	%
Transport, telecommunications	3,911,907	28	3,069,873	24
Individuals	3,242,671	23	2,880,839	23
Trade	2,457,357	18	2,825,335	23
Processing industry	1,202,260	9	810,160	6
Financial intermediaries	821,908	6	832,744	7
Construction	742,546	5	455,307	4
Professional services	422,207	3	516,303	4
Agriculture	211,860	2	364,807	3
Other	957,287	6	795,416	6
Total current accounts	13,970,003	100	12,550,784	100

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

14. Customer accounts (continued)

Deposits allocated by economic sectors were as follows:

	31 December 2022		31 December 2021	
	Amount	%	Amount	%
Individuals	1,686,337	48	2,275,506	47
Construction	536,971	15	1,281,720	27
Trade	452,870	13	406,378	8
Processing industry	343,399	10	49,807	1
Professional services	165,294	5	237,550	5
Transport, telecommunications	145,114	4	247,179	5
Financial intermediaries	94,266	3	217,085	4
Other	91,091	2,	117,971	3
Total deposits	3,515,342	100	4,833,196	100

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

15. Other financial and non-financial liabilities

	31 December 2022	31 December 2021
<i>Other financial liabilities</i>		
Accounts payable on assets and services purchased	21,418	28,132
Settlements with customers	15,027	8,231
Commissions on loans prepaid	10,564	5,319
Expense accrued on services	1,253	1,149
Accounts payable on lending operations	-	20,000
Other financial liabilities	613	6,782
Total other financial liabilities	48,875	69,613
<i>Other non-financial liabilities</i>		
Payables to Individual Deposit Guarantee Fund	9,018	9,098
Deferred income	3,266	6,043
Taxes payable, other than income taxes	2,194	4,607
Other liabilities	99	261
Total other non-financial liabilities	14,577	20,009
Total other financial and non-financial liabilities	63,452	89,622

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

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

16. 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 2022, the Bank repaid USD 250 thousand (2021: USD 1,000 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 2022, the Bank repaid USD 236 thousand (2021: USD 944 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.

Against the background of the military aggression from the Russian Federation, in June 2022, the Bank signed with WORLDBUSINESS CAPITAL, INC., USA, additional agreements the terms and conditions of which stipulate for extending borrowing terms by two years and postponing quarterly repayments of borrowings effective from 20 June 2022 by two years, as well as reducing the margin by 0.5%. Interest on borrowings should be accrued on the basis of 3-month USD LIBOR plus margin of 3.75% and 3.3%, respectively, which, as at 31 December 2022, amounted to 8.5% and 8.05% (31 December 2021: 4.5% and 4.05%). Interests are payable every three months over the term of the borrowing agreement.

As at 31 December 2022, carrying value of other borrowed funds amounted to UAH 394,056 thousand (31 December 2021: UAH 309,211 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 2022, the Bank was in compliance with the covenants imposed by the agreements on other borrowed funds, except one (open exposure ratio of non-performing and restructured loans). Non-compliance with the covenant mentioned above is related to the military aggression of the Russian Federation and the resulting deterioration of financial positions of the Bank's borrowers. The Bank received from WORLDBUSINESS CAPITAL, INC., USA, a waiver in respect of this non-compliance as at 31 December 2022 and for 2023. As at 31 December 2021, 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 18.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

16. Other borrowed funds (continued)

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.

17. Subordinated debt

	Currency	Maturity	Nominal rate, %	31 December 2022	31 December 2021
Subordinated debt received from a related party-individual	USD	6 September 2027	6	63,562	56,962
Subordinated debt received from a related party-individual	USD	30 November 2028	7	75,906	46,544
Subordinated debt received from a related party-individual	USD	11 October 2028	5	139,481	103,286
Total subordinated debt				278,949	206,792

18. 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 2022 and 2021.

	1 January 2022	Proceeds from cash flows	Repay-ments from cash flows	Interest paid	Interest expense	Foreign exchange differences	Other non-cash changes	31 December 2022
Other borrowed funds	309,211	-	(14,218)	(20,588)	23,508	104,456	(8,313)	394,056
Subordinated debt	206,792	-	-	(17,776)	16,694	70,288	2,951	278,949
Lease liabilities	77,720	-	(27,504)	(15,436)	16,535	3,617	24,598	79,530
Refinancing loan from the NBU	-	1,000,000	(1,000,000)	(102,583)	102,583	-	-	-
Total reconciliation of liabilities arising from financing activities	593,723	1,000,000	(1,041,722)	(156,383)	159,320	178,361	19,236	752,535

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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

	1 January 2021	Proceeds from cash flows	Repay- ments from cash flows	Interest paid	Interest expense	Foreign exchange differences	Non-cash changes Other non- cash changes	31 Decem- ber 2021
Other borrowed funds	372,653	-	(52,897)	(14,931)	17,694	(13,308)	-	309,211
Subordinated debt	111,740	105,368	-	(8,276)	9,197	(585)	(10,652)	206,792
Lease liabilities	59,947	-	(60,701)	(7,621)	7,621	-	78,474	77,720
Total reconciliation of liabilities arising from financing activities	544,340	105,368	(113,598)	(30,828)	34,512	(13,893)	67,822	593,723

19. Issued capital

	Number of issued shares	Amount
As at 1 January 2021	3,073,500	841,955
Increase in issued capital at the cost of retained earnings	-	141,995
As at 31 December 2021	3,073,500	983,950
Increase in issued capital at the cost of retained earnings	-	271,482
As at 31 December 2022	3,073,500	1,255,432

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 2022 and 2021.

The reserve and other funds in equity accounted for in accordance with the NBU requirements amounted to UAH 53,298 thousand as at 31 December 2022 (31 December 2021: UAH 38,996 thousand). Charges to the reserve and other funds are made from the net profits for the reporting 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 and other funds 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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

19. Issued capital (continued)

In November 2022, the sole shareholder decided to increase the Bank's issued capital by UAH 271,482 thousand to the total amount of UAH 1,255,432 thousand and, also, approved profits for 2021 in the amount of UAH 285,784 thousand and their distribution as follows:

- UAH 14,302 thousand distributable to the Bank's reserve and other funds;
- UAH 271,482 thousand distributable to increase the issued capital.

As at 31 December 2022, all shares were represented by ordinary shares with the nominal value of UAH 408.47 per share (31 December 2021: UAH 320.14 per share).

The Bank's issued capital was increased through the increase in the nominal value of the Bank's shares by UAH 88.33 to the total value of UAH 408.47 per share. In December 2022, the new version of the Bank's Charter was state registered. In accordance with Para. 4.1. Article 4 of the new version of the Bank's Charter, the Bank's issued capital amounts to UAH 1,255,432,545.00 (one billion two hundred fifty five million four hundred thirty two thousand five hundred forty five Ukrainian Hryvnias and 00 Kopeikas).

As at 31 December 2022, a package of documents was submitted to the National Securities and Stock Market Commission to register the issuance of ordinary registered shares of the Bank for the total amount of UAH 1,255,432 thousand through the increase in the nominal value of shares to UAH 408.47 per share.

20. Interest income and expense

	For 12 months of 2022	For 12 months of 2021
Interest income		
Interest income on financial assets measured at amortized cost (calculated using the effective interest rate method):		
Loans to legal entities	1,013,949	931,018
Investments in securities measured at amortized cost	356,995	36,779
Loans and advances to banks	30,335	1,478
Loans to individuals	20,162	16,130
Interest income on financial assets measured at fair value through other comprehensive income:		
Investments in securities measured at fair value through other comprehensive income	276,292	386,495
Total interest income	1,697,733	1,371,900

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

20. Interest income and expense (continued)

(continued)	For 12 months of 2022	For 12 months of 2021
Interest expense		
Interest expense on financial liabilities measured at amortized cost:		
Current/settlement accounts	333,671	214,748
Due to other banks and refinancing borrowing from the NBU	103,843	2,407
Term deposits of individuals	76,131	97,090
Term deposits of legal entities	48,437	80,094
Other borrowed funds (Note 18)	23,508	17,694
Subordinated debt (Note 18)	16,694	9,197
Interest expense on lease liabilities (Note 18)	16,535	7,621
Total interest expense	618,819	428,851
Net interest income (Net interest expense)	1,078,914	943,049

21. Commission income and expense

	For 12 months of 2022	For 12 months of 2021
Commission income		
- Cash and settlement transactions	882,022	754,832
- Purchase and sale of foreign currency	121,341	124,159
- Guarantees issued	56,782	48,335
- Lending transactions	11,037	23,661
- Use of safe deposits	10,900	12,779
- Cash collection	5,264	9,968
- Other	3,109	3,929
Total commission income	1,090,455	977,663
Commission expense		
- Commissions for settlement services	371,940	360,694
- Commissions for payment processing	10,686	16,886
- Commissions for off-balance-sheet operations	6,594	2,705
- Other	3,178	-
Total commission expense	392,398	380,285
Net commission income	698,057	597,378

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

22. Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9

	For 12 months of 2022	For 12 months of 2021
Cash and cash equivalents	(1,023)	1,302
Loans and advances to banks	(118)	2,720
Loans and advances to customers	(802,168)	13,973
Investments in securities	2,187	(32,097)
Other financial assets	(21,594)	(4,958)
Loan commitments	(4,346)	(25)
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	(827,062)	(19,085)

23. Other operating income (expense)

	For 12 months of 2022	For 12 months of 2021
Other operating income		
Income on discounts received in respect of lease payments (a variable portion)	32,011	-
Income on modification of financial liabilities	6,502	2,967
Income from MasterCard on implementation of a joint marketing program	5,295	19,664
Income on leases	2,405	2,623
Income on de-recognition of financial liabilities	-	2,217
Other	4,208	2,457
Total other operating income	50,421	29,928
Other operating expense		
Expense on modification of financial instruments	(51,905)	(21,349)
Expense on de-recognition of financial liabilities	(741)	-
Total other operating expense	(52,646)	(21,349)
Total other operating income (expense)	(2,225)	8,579

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

24. Employee benefit expense

For the year ended 31 December 2022, employee benefit expense amounted to UAH 539,190 thousand (2021: UAH 558,505 thousand).

Included in employee benefit expense for 2022 was unified social contribution in the amount of UAH 76,741 thousand (2021: UAH 73,421 thousand).

25. Other administrative and operational expenses

	For 12 months of 2022	For 12 months of 2021
Maintenance of premises and equipment and support of IT systems	186,047	149,899
Processing services, communication, mail, and information systems	89,640	99,700
Contributions to Individual Deposit Guarantee Fund	35,985	35,377
Royalty	25,341	143,783
Sponsorship and charity	13,874	7,191
Utilities	12,478	9,571
Advertising and marketing services	11,049	26,540
Security services	9,064	9,578
Negative result as a result of write off (sales) of property and equipment	6,997	82
Professional services	6,564	16,750
Expense on leases of low value underlying assets and short-term leases	5,439	3,929
Business trips	1,439	7,329
Other taxes and mandatory payments, other than income taxes	1,235	4,109
Other	29,276	34,021
Total other administrative and operational expenses	434,428	547,859

Included in royalty were monthly payments for using the trade mark of “Vlasnyi Rakhunok” to a related party – an entity under control of major shareholders in the amount of UAH 20,096 thousand (2021: UAH 137,681 thousand).

26. Tax expense

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

	2022	2021
Current tax	(61,684)	(62,851)
Deferred tax	663	(464)
Tax expense	(61,021)	(63,315)

PJSC “BANK VOSTOK”

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

26. Tax expense (continued)

Reconciliation between the tax expense and profit or loss multiplied by the applicable tax rate. The tax rate applicable to the Bank's income for 2022 was 18% (2021: 18%). Reconciliation between the expected and actual tax expenses is provided below.

	2022	2021
Profit (loss), before tax	336,545	349,099
Theoretical tax charges at the statutory tax rate	(60,579)	(62,838)
Tax effect of items which are not deductible or taxable:		
- Non-deductible expenses	335	(924)
- Income not recognized in financial accounting	(777)	447
Tax expense	(61,021)	(63,315)

Deferred taxes analyzed by type of temporary differences. Differences between IFRS and statutory tax regulations in Ukraine give rise to certain 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% (2021: 18%).

	1 January 2022	Credited to profit or loss	Recognized in other comprehensive income	31 December 2022
Tax effect of deductible/(taxable) temporary differences				
Property and equipment	4,044	(114)	-	3,930
Expense accrued	-	777	-	777
Investments in securities	(1,467)	-	7,569	6,102
Net deferred tax assets	2,577	663	7,569	10,809
Deferred tax assets recognized	4,044	663	6,102	10,809
Deferred tax liabilities recognized	(1,467)	-	1,467	-
Net deferred tax assets	2,577	663	7,569	10,809

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

26. Tax expense (continued)

Tax effect of movements in temporary differences during the year ended 31 December 2021 is detailed below:

	1 January 2021	Credited to profit or loss	Recognized in other comprehen- sive income	31 December 2021
Tax effect of deductible/(taxable) temporary differences				
Property and equipment	4,508	(464)	-	4,044
Expense accrued	-	-	-	-
Investments in securities	(1,758)	-	291	(1,467)
Net deferred tax assets	2,750	(464)	291	2,577
Deferred tax assets recognized	4,508	(464)	-	4,044
Deferred tax liabilities recognized	(1,758)	-	291	(1,467)
Net deferred tax assets	2,750	(464)	291	2,577

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
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

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 2022, 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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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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 for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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 2022, all loan transactions were performed within the limits set.

Measuring expected credit losses on financial assets assessed on a collective 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 “Financial Instruments” 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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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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.

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. Certain delays in debt repayment above 90 days may not be an evidence of impairment. A decision on whether the asset has impairment indicators should be taken on the basis of additional information.
- Negative restructuring associated with a borrower’s financial difficulties and a significant decrease in expected flows from its assets; besides, full fulfillment of obligations (at the expense of all sources, including realization of collateral) in the next five years cannot be substantiated. Financial difficulties of a borrower are such changes in the financial position of the borrower, due to which late payments would be allowed and/or losses would be recognized as a reduction in the value of the loan, if the appropriate loan restructuring were not performed.
- 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).
- Sales of a counterparty’s loans at a high discount.
- Write off of one or several assets of the counterparty at the cost of an allowance.

The Bank uses one or a combination of indicators, together with own judgment, in determining whether there is a default depending on the available information, peculiarities of borrowers, their assets, etc.

The Bank uses both individual and collective assessments when determining expected credit losses.

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 and advances to customers measured on an individual basis. The Bank assesses on an individual basis loans and advances 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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

The estimation of expected credit losses by each loan measured on an individual basis is performed based on discounted cash flows under several scenarios weighted for the probability of each scenario. The Bank considers several scenarios of repaying funds by a borrower under each individual financial asset and takes into account each of them even when a repayment of debt under the specific scenario is considered to be remote. The Bank considers the following standard scenarios for the recovery of loans:

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

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

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

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD (the Bank adjusts the determined value of probability of default according to the projected macroeconomic scenario).

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. LGD models for secured assets consider collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and time of recovery. LGD models for unsecured assets consider historical data about time of recovery and recovery rates.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as repayment in accordance with the contractual schedule, changes in utilization of undrawn commitments, and credit mitigation actions taken before default.

Incorporation of forward-looking information in respect of macroeconomic indicators. Expected credit losses are calculated with reference to expectations regarding changes in a range of macroeconomic indicators such as: inflation, exchange rate, GDP and unemployment rate. 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 and advances to customers during the period, as well as movements in allowance for expected credit losses during 2022 and 2021. Movements in expected credit losses on loans and advances to banks, investments in securities measured at amortized cost, investments in securities measured at fair value through other comprehensive income, 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 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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

	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired loans	Total
31 December 2021	8,335,239	516,484	156,119	94,756	9,102,598
New loans and advances to customers or originated loans	5,049,244	-	-	45,192	5,094,436
Transfer to Stage 1	6	(6)	-	-	-
Transfer to Stage 2	(3,642,070)	3,642,070	-	-	-
Transfer to Stage 3	-	(880,389)	880,389	-	-
Loans derecognized (repaid)	(4,678,771)	(184,973)	(121,422)	(71,301)	(5,056,467)
Written off and sold	-	-	(202)	-	(202)
Changes due to modification that has not resulted in de-recognition	(30,158)	(1,771)	(19,976)	-	(51,905)
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	(96,226)	39,381	138,891	1,501	83,547
31 December 2022	4,937,264	3,130,796	1,033,799	70,148	9,172,007
	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired loans	Total
31 December 2020	6,419,520	639,105	177,145	19,895	7,255,665
New loans and advances to customers or originated loans	7,445,948	-	-	71,300	7,517,248
Transfer to Stage 1	17,980	(17,980)	-	-	-
Transfer to Stage 2	(80,724)	80,724	-	-	-
Transfer to Stage 3	-	(1,500)	1,500	-	-
Loans derecognized (repaid)	(5,180,385)	(69,639)	(19,102)	-	(5,269,126)
Written off and sold	-	-	(526)	-	(526)
Changes due to modification that has not resulted in de-recognition	(8,292)	157	(10,247)	-	(18,382)
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	(278,808)	(114,383)	7,349	3,561	(382,281)
31 December 2021	8,335,239	516,484	156,119	94,756	9,102,598

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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

	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired loans	Total
31 December 2021	8,640	114,413	118,865	(13,422)	228,496
New loans and advances to customers or originated loans	21,015	-	-	13,686	34,701
Transfer to Stage 1	6	(6)	-	-	-
Transfer to Stage 2	(7,575)	7,575	-	-	-
Transfer to Stage 3	-	(120,952)	120,952	-	-
Loans derecognized	(5,116)	(41,033)	(97,546)	13,822	(129,873)
Written off and sold	-	-	(202)	-	(202)
Effect of changes in models or risk parameters	3,268	471,171	351,408	-	825,847
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	311	3,106	532	1,033	4,982
31 December 2022	20,549	434,274	494,009	15,119	963,951
	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired loans	Total
31 December 2020	7,497	97,033	134,100	(4,901)	233,729
New loans and advances to customers or originated loans	25,793	-	-	-	25,793
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(18,058)	18,058	-	-	-
Transfer to Stage 3	-	(419)	419	-	-
Loans derecognized	(11,620)	(14,821)	(11,788)	-	(38,229)
Written off and sold	-	-	(526)	-	(526)
Effect of changes in models or risk parameters	(198)	22,214	(1,148)	6,788	27,656
Effect of other changes (including foreign currency exchange rate fluctuations and partial repayment)	5,226	(7,652)	(2,192)	(15,309)	(19,927)
31 December 2021	8,640	114,413	118,865	(13,422)	228,496

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

To disclose changes in gross carrying value of loans and advances to customers during the period, as well as movements in allowance for expected credit losses during 2022 and 2021, all changes in gross carrying value and allowance for loans recognized during the reporting period are presented in line “New loans and advances to customers or originated loans” irrespective of the reason for the said changes.

As at 31 December 2022, undiscounted amount on the initial impairment of originated credit-impaired loans recognized on their initial recognition and not included in allowances amounted to UAH 174,792 thousand (31 December 2021: UAH 23,052 thousand).

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 2022 and 2021 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 comprehensive income, profit or loss.

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

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

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

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

The table below summarizes the Bank’s exposure to foreign currency risk concentration as at 31 December 2022.

	31 December 2022			
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial assets	Net position
UAH	11,921,917	10,579,744	51,002	1,393,175
USD	6,410,189	6,494,591	-	(84,402)
EUR	1,265,809	1,296,056	-	(30,247)
Other currencies	83,317	50,964	-	32,353
Total	19,681,232	18,421,355	51,002	1,310,879

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

The table below summarizes the Bank’s exposure to foreign currency risk concentration as at 31 December 2021.

	31 December 2021			
	Non-derivative financial assets	Non-derivative financial liabilities	Derivative financial assets	Net position
UAH	12,411,818	11,269,681	19,106	1,161,243
USD	5,669,692	5,742,246	-	(72,554)
EUR	1,050,473	1,050,742	-	(269)
Other currencies	59,426	30,779	-	28,647
Total	19,191,409	18,093,448	19,106	1,117,067

The above analysis includes only monetary financial assets and liabilities.

The following table presents sensitivities of profit or loss, before tax, 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 2022		31 December 2021	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 15% (2021: strengthening by 10%)	(12,660)	(10,381)	(7,255)	(5,949)
USD weakening by 5% (2021: weakening by 5%)	4,220	3,460	3,628	2,975
EUR strengthening by 15% (2021: strengthening by 10%)	(4,537)	(3,720)	(27)	(22)
EUR weakening by 5% (2021: weakening by 5%)	1,512	1,240	13	11
Other currency strengthening by 15% (2021: strengthening by 10%)	4,853	3,979	2,865	2,349
Other currency weakening by 5% (2021: weakening by 5%)	(1,618)	(1,327)	(1,432)	(1,175)

A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, profit or loss or the statement 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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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 2022, most financial assets and liabilities of the Bank were issued/attracted at fixed interest rates. As at 31 December 2022, interest was accrued at floating interest rates on loans and advances to customers in the amount of UAH 2,189,539 thousand (31 December 2021: UAH 1,843,818 thousand), other borrowed funds in the amount of UAH 394,056 thousand (31 December 2021: UAH 309,211 thousand) and derivative financial assets on interest rate swaps (Note 30). The table below analyzes the sensitivity of interest rates on assets and liabilities at floating interest rates and investments in securities measured at fair value through other comprehensive income as at 31 December 2022 and 2021:

	31 December 2022		31 December 2021	
	Interest rate +1	Interest rate -1	Interest rate +1	Interest rate +1
Impact on profit or loss, before tax				
Sensitivity of non-derivative financial assets	21,895	(21,895)	18,438	(18,438)
Sensitivity of non-derivative financial liabilities	(3,941)	3,941	(3,092)	3,092
Sensitivity of derivative financial instruments	64,839	(57,546)	9,890	1,882
Sensitivity of investments in securities measured at fair value through other comprehensive income	(37,957)	44,895	(47,383)	55,058
Net impact on profit or loss	44,836	(30,605)	(22,147)	41,594

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

Geographical risk concentration. Geographical concentration of the Bank’s financial assets and liabilities as at 31 December 2022 is set out below:

	Ukraine	OECD countries	Other countries	Total
Non-derivative financial assets				
Cash and cash equivalents	1,556,119	2,306,521	-	3,862,640
Loans and advances to banks	1,066	888,714	-	889,780
Loans and advances to customers	8,203,026	5,030	-	8,208,056
Investments in securities	5,589,704	382,340	360,418	6,332,462
Other financial assets	8,936	379,284	74	388,294
Total non-derivative financial assets	15,358,851	3,961,889	360,492	19,681,232
Derivative financial assets	51,002	-	-	51,002
Total financial assets	15,409,853	3,961,889	360,492	19,732,234
Non-derivative financial liabilities				
Due to other banks	31,490	-	97,458	128,948
Customer accounts	17,421,566	51,488	12,291	17,485,345
Lease liabilities	79,530	-	-	79,530
Other borrowed funds	-	394,056	-	394,056
Provisions for loan commitments and financial guarantee contracts	5,652	-	-	5,652
Other financial liabilities	48,124	696	55	48,875
Subordinated debt	278,949	-	-	278,949
Total financial liabilities	17,865,311	446,240	109,804	18,421,355
Net position on non-derivative financial instruments	(2,506,460)	3,515,649	250,688	1,259,877
Net position on derivative financial instruments	51,002	-	-	51,002
Net position on derivative and non-derivative financial instruments	(2,455,458)	3,515,649	250,688	1,310,879

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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

Geographical concentration of the Bank’s financial assets and liabilities as at 31 December 2021 is set out below:

	Ukraine	OECD countries	Other countries	Total
Non-derivative financial assets				
Cash and cash equivalents	1,834,627	1,379,710	-	3,214,337
Loans and advances to banks	61,914	305,506	674	368,094
Loans and advances to customers	8,869,059	5,043	-	8,874,102
Investments in securities	6,144,168	159,428	6,568	6,310,164
Other financial assets	147,288	277,332	92	424,712
Total non-derivative financial assets	17,057,056	2,127,019	7,334	19,191,409
Non-derivative financial liabilities				
Due to other banks	14,511	-	30,285	44,796
Customer accounts	17,059,549	111,017	213,414	17,383,980
Lease liabilities	77,720	-	-	77,720
Other borrowed funds	-	309,211	-	309,211
Provisions for loan commitments and financial guarantee contracts	1,328	-	8	1,336
Other financial liabilities	65,070	4,457	86	69,613
Subordinated debt	206,792	-	-	206,792
Total non-derivative financial liabilities	17,424,970	424,685	243,793	18,093,448
Net position on non-derivative financial instruments	(367,914)	1,702,334	(236,459)	1,097,961
Net position on derivative financial instruments	19,106	-	-	19,106
Net position on derivative and non-derivative financial instruments	(348,808)	1,702,334	(236,459)	1,117,067

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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 2022 and 2021 by their remaining contractual maturities. 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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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

The maturity analysis of financial liabilities as at 31 December 2022 and 2021 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 2022					
Due to other banks	96,316	7,000	25,632	-	128,948
Customer accounts	15,523,131	896,867	1,096,365	1,962	17,518,325
Lease liabilities	18,125	10,546	41,400	33,320	103,391
Other borrowed funds	-	8,425	25,742	518,240	552,407
Provisions for loan commitments and financial guarantee contracts	5,652	-	-	-	5,652
Other financial liabilities	48,875	-	-	-	48,875
Subordinated debt	1,771	2,719	12,674	369,599	386,763
Irrevocable loan commitments	105,111	-	-	-	105,111
Guarantees issued	1,572,816	-	-	-	1,572,816
Avals payable	143,059	-	-	-	143,059
Total potential future payments on financial liabilities and loan commitments as at 31 December 2022	17,514,856	925,557	1,201,813	923,121	20,565,347
	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
31 December 2021					
Due to other banks	31,430	-	13,366	-	44,796
Customer accounts	13,598,195	1,692,130	1,654,151	565,931	17,510,407
Lease liabilities	6,170	9,511	32,140	39,708	87,529
Other borrowed funds	-	16,604	49,257	294,025	359,886
Provisions for loan commitments and financial guarantee contracts	1,336	-	-	-	1,336
Other financial liabilities	69,613	-	-	-	69,613
Subordinated debt	1,321	2,028	9,454	288,249	301,052
Irrevocable loan commitments	140,122	-	-	-	140,122
Guarantees issued	2,087,935	-	-	-	2,087,935
Avals payable	152,448	-	-	-	152,448
Letters of credit payable	27,314	-	-	-	27,314
Total potential future payments on financial liabilities and loan commitments as at 31 December 2021	16,115,884	1,720,273	1,758,368	1,187,913	20,782,438

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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

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 the cases where it is stipulated in the contract of bank term deposit.

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 2022:

	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Non-derivative financial assets					
Cash and cash equivalents	3,862,640	-	-	-	3,862,640
Loans and advances to banks	478,567	-	411,096	117	889,780
Loans and advances to customers	1,634,735	1,551,107	3,640,121	1,382,093	8,208,056
Investments in securities	4,511,105	371,580	856,485	593,292	6,332,462
Other financial assets	9,061	-	-	379,233	388,294
Total non-derivative financial assets	10,496,108	1,922,687	4,907,702	2,354,735	19,681,232
Derivative financial assets	-	-	51,002	-	51,002
Total financial assets	10,496,108	1,922,687	4,958,704	2,354,735	19,732,234
Non-derivative financial liabilities					
Due to other banks	96,316	7,000	25,632	-	128,948
Customer accounts	15,512,176	886,616	1,084,592	1,961	17,485,345
Lease liabilities	17,744	6,897	28,096	26,793	79,530
Other borrowed funds	-	1,123	-	392,933	394,056
Provisions for loan commitments and financial guarantee contracts	5,652	-	-	-	5,652
Other financial liabilities	48,875	-	-	-	48,875
Subordinated debt	1,150	-	-	277,799	278,949
Total non-derivative financial liabilities	15,681,913	901,636	1,138,320	699,486	18,421,355
Total financial liabilities	15,681,913	901,636	1,138,320	699,486	18,421,355
Net liquidity gap as at 31 December 2022	(5,185,805)	1,021,051	3,820,384	1,655,249	1,310,879
Cumulative liquidity gap as at 31 December 2022	(5,185,806)	(4,164,754)	(344,370)	1,310,879	-
Loan commitments					
Irrevocable loan commitments	105,111	-	-	-	105,111
Guarantees issued	1,572,816	-	-	-	1,572,816
Avals payable	143,059	-	-	-	143,059
Cumulative liquidity gap as at 31 December 2022, including loan commitments	(7,006,792)	(5,985,740)	(2,165,356)	(510,107)	-

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

As at 31 December 2022, the Bank has a significant cumulative liquidity gap on financial assets and liabilities up to 12 months in the amount of UAH 344,370 thousand. This liquidity gap arises from the fact that an important source of funding for the Bank are customer funds on 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 accounts provide a long-term and stable source of funding for the Bank. The minimum balance of customer funds during 2022 and 2021 amounted to not less than UAH 13,251,405 thousand and UAH 13,472,252 thousand, which was 76% and 61% of total customer accounts, respectively. In addition, as at 31 December 2022, investments in securities with maturities of over one year included debt securities issued by domestic and foreign government authorities that were not used as collateral, with fair value of UAH 533,714 thousand, which could be used by the Bank before maturities in emergencies to cover a liquidity deficit.

The liquidity position of the Bank as at 31 December 2021 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 and cash equivalents	3,214,337	-	-	-	3,214,337
Loans and advances to banks	971	61,216	305,814	93	368,094
Loans and advances to customers	820,589	1,972,249	4,202,058	1,879,206	8,874,102
Investments in securities	1,731,697	2,135,207	1,424,470	1,018,790	6,310,164
Other financial assets	11,283	147,359	-	266,070	424,712
Total non-derivative financial assets	5,778,877	4,316,031	5,932,342	3,164,159	19,191,409
Derivative financial assets		-	536	18,570	19,106
Total financial assets	5,778,877	4,316,031	5,932,878	3,182,729	19,210,515
Non-derivative financial liabilities					
Due to other banks	31,430	-	13,366	-	44,796
Customer accounts	13,591,611	1,669,831	1,620,199	502,339	17,383,980
Lease liabilities	6,142	9,321	29,987	32,270	77,720
Other borrowed funds	-	13,359	38,723	257,129	309,211
Provisions for loan commitments and financial guarantee contracts	1,336	-	-	-	1,336
Other financial liabilities	69,613	-	-	-	69,613
Subordinated debt	858	-	-	205,934	206,792
Total non-derivative financial liabilities	13,700,990	1,692,511	1,702,275	997,672	18,093,448
Total financial liabilities	13,700,990	1,692,511	1,702,275	997,672	18,093,448
Net liquidity gap as at 31 December 2021	(7,922,113)	2,623,520	4,230,603	2,185,057	1,117,067
Cumulative liquidity gap as at 31 December 2021	(7,922,113)	(5,298,593)	(1,067,990)	1,117,067	

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

27. Financial risk management (continued)

(continued)	On demand and less than 1 month	1-3 months	3-12 months	Over 12 months	Total
Loan commitments					
Irrevocable loan commitments	140,122	-	-	-	140,122
Guarantees issued	2,087,935	-	-	-	2,087,935
Avals payable	152,448	-	-	-	152,448
Letters of credit payable	27,314	-	-	-	27,314
Cumulative liquidity gap as at 31 December 2021, including loan commitments					
	(10,329,932)	(7,706,412)	(3,475,809)	(1,290,752)	-

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 2022 was UAH 1,488,800 thousand (31 December 2021: UAH 1,318,397 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 Chairperson of the Management Board and Chief Accountant. Other objectives of capital management are evaluated annually.

As at 31 December 2022 and 2021, the Bank's equity complied with the legislation requirements. In 2022 and 2021, there were no changes in objectives, policies, and processes of the Bank regarding capital management.

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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

28. Capital management (continued)

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 2022, the minimum level required by the NBU was 10% (31 December 2021: 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 2022	31 December 2021
Core capital	1,269,115	981,038
Additional capital	657,178	556,838
Total regulatory capital	1,926,293	1,537,876

As at 31 December 2022 and 2021, the Bank complied with the statutory values of capital adequacy set by the NBU.

29. Contingencies and other commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received from third parties. 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.

Tax liabilities. Ukraine’s tax legislation is characterized by complexity in administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing current economic and political issues, the Government considers implementing certain reforms in the tax system of Ukraine.

At the end 2021, the Verkhovna Rada of Ukraine adopted the draft Law 5600 on Amending the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Aimed at Ensuring Balanced Fiscal Revenue, which is effective from 1 January 2022. Among other changes, the new Law has introduced:

- Restriction on the utilization of tax losses. Effective from 2022, tax loss carry forwards for large taxpayers are limited to 50% of losses reported in the previous year. Unused tax losses are permitted to use in future period with 50% limit until they are fully utilized. However, if tax loss carried forward from previous years does not exceed 10 percent of taxable profit for the reporting period, the taxpayer may reduce the amount of profit/loss before tax for this tax (reporting) period in full. The restriction applies to large taxpayers.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

29. Contingencies and other commitments (continued)

- The timeframe for including VAT amounts in VAT input is significantly reduced. The period during which the taxpayers have the right to include VAT amounts in VAT input is reduced from 1,095 days to 365 days.

On 15 March 2022, the Verkhovna Rada of Ukraine adopted the draft Law 7137-d “On Amendments to the Tax Code of Ukraine and Other Legislative Acts of Ukraine Concerning the Effect of Norms for the Martial Law Period”. The regulations are effective from the announcement and are expected to remain in effect while martial law is in force in Ukraine.

Among other changes, the new Law has introduced:

- No penalties should apply for failure to pay taxes and duties or file tax returns and reports, where circumstances mean taxpayers are prevented from compliance (except for declaring a single tax at 2%), registration of tax or excise invoices in the relevant registers in the absence of the ability to file them. Taxpayers must bring their affairs up to date, e.g., pay the taxes and file the returns, within three months after martial law is lifted.
- Until martial law is terminated or cancelled, no new tax audits should be initiated and ongoing tax audits will be suspended. However, exceptions apply to desktop (i.e., virtual) audits to confirm VAT refunds and audits aimed at verification of cash handling procedures and compliance with labor legislation, which will continue during martial law.
- The transfer of goods and services to be used for the benefit of the military defense of Ukraine will not be subject to VAT.
- Landowners are exempt from paying land tax and land rent in areas where active hostilities are taking place or temporarily occupied territories, or littered with explosive objects for the period from March 2022 to 31 December of the year following the year in which the martial law will be cancelled.

At the same time, on 12 May 2022, the Verkhovna Rada of Ukraine adopted the Draft Law № 7360 “On Amending the Tax Code of Ukraine and Other Legislative Acts on the Peculiarities of Tax Administration of Taxes, Duties, and Unified Tax Contributions during the Martial Law Period”, which includes significant amendments to the previously adopted legislation on tax administration during the martial law period. On 25 May 2022, the Law was signed by the President of Ukraine and came into force. According to the Law, the obligation to pay taxes, register tax invoices, and submit reports for the taxpayers which are able to fulfill this obligation in a timely manner is restored, the tax authorities’ right to conduct the unscheduled documentary audits has been restored, and penalties as a result of tax audits may now be applied. The moratorium on the penalties imposed as a part of COVID-19 restrictions is cancelled.

On 29 July 2022, Law 2480-IX “On Amending Chapter XX “Transitional Provisions” of the Tax Code of Ukraine on Ensuring the Stable Functioning of the Natural Gas Market During Martial Law and Subsequent Recovery” entered into force. According to the Law, in the period from 1 January 2022 to 1 January 2024, if the producers of electricity under the “green” tariff do not receive payments for the electricity sold, the income received from such transactions can be recognized as non-taxable and expenses incurred for such electricity as non-deductible. After receiving such payments, the taxpayer should increase the financial result before taxation by the amount of received income and deduct the corresponding expenses.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

29. Contingencies and other commitments (continued)

Resolution No. 1428 of the Cabinet of Ministers of Ukraine dated 23 December 2022 made significant changes to the Procedure for suspension of the registration of tax invoices in the Unified Register of Tax Invoices. The key changes provide for the systematization of the taxpayer’s risk criteria, as well as their application considering the peculiarities of martial law.

The Draft Law “On Amendment the Tax Code of Ukraine and other laws of Ukraine regarding the peculiarities of taxation during the period of martial law” was approved. The draft law proposes to establish that certain legislative provisions are in effect until the termination or cancellation of the state of war or emergency in the territory of Ukraine, but no later than 1 July 2023. In this regard, in July 2023, the simplified system with a single tax rate of 2% is expected to be abolished.

On 20 September 2022, the No. 2600-IX “On Amendment the Tax Code of Ukraine on Taxation of Transactions with Real Estate Objects to Be Built in the Future” came into force. The Law, in particular, provides for:

- Exemption personal income tax on transactions of sales of housing and other construction objects, including unfinished ones, if the property right to them is registered in favor of the buyer and at least partially paid;
- Introduction of a cash-based method (tax calculation at source) for determining VAT liabilities on transactions of the first supply of residual estate.

Effective from 1 January 2023, the Law No. 2720-IX dated 3 November 2022 “On Amending the Tax Code of Ukraine and Other Laws of Ukraine Regarding the Peculiarities of Taxation of Activities of Trading in Currency Valuables in Cash” introduced the advance income tax payments for each foreign currency exchange point entered in the Register of Foreign Currency Exchange Points.

In late 2022, the Law of Ukraine No. 2836-IX dated 13 December 2022 “On Amending the Tax Code of Ukraine on Promoting the Restoration of the Energy Infrastructure of Ukraine” was signed by the President of Ukraine (entered into force three days after its publication), which provided, in particular, as follows:

- Exemption of taxpayers from responsibility for untimely submission of reports, documents, and notices stipulated by transfer pricing rules and taxation of controlled foreign companies, with establishing an obligation to submit such documents within six months after termination or cancellation of the martial law in Ukraine.
- Exemption of corporate income tax payers from responsibility for untimely submission of the financial statements, together with an audit report and a clarifying declaration on this tax submitted for clarifying the indicators of such financial statements, with establishing an obligation to submit such documents within three months after termination or cancellation of the martial law in Ukraine.
- Not to consider as an excise warehouse premises or territories in/on each of which the total volume of fuel storage containers used exclusively for refueling electric generators does not exceed 2,000 liters, as well as premises or territories in/on each of which fuel is stored or sold in consumer containers, with a capacity of up to 5 liters inclusive, received from a manufacturer or a person who filled it into such a container. Those two criteria for determining the excise warehouse shall be applied simultaneously.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

29. Contingencies and other commitments (continued)

- A business entity has the right to store the fuel to be consumed for refueling electric generators in the volume of up to 2,000 liters at each facility equipped with an electric generator, without obtaining permission documents (permits, a license for the right to store fuel, results of providing other administrative services).

Also, the said amendments to the Tax Code have introduced the following:

- A deadline for registering tax invoices and adjustment calculations in the Unified Register of Tax Invoices, without applying penalties, the dates of which fall on the period from 1 February to 31 May 2022, has been postponed from 14 July to 15 July 2022;
- A deadline for taxpayers to submit VAT tax returns, without applying penalties, for the tax periods of from February to May 2022 has been postponed from 19 July to 20 July 2022;
- A deadline for payment of tax liabilities for the period from February to May 2022 is set for 1 August 2022;
- Taxpayers are given an opportunity, during the period of the martial law, to correct errors that have led to an understatement of tax liabilities without charging and paying penalties.

Management believes that the Bank has been in compliance with all requirements of the effective tax legislation, however, there may be no assurance that the tax authorities will not have a different opinion regarding the Bank's interpretation of the tax legislation and will not apply penalties.

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 2022	31 December 2021
Guarantees issued	1,572,816	2,087,935
Avals payable	143,059	152,448
Irrevocable loan commitments	105,111	140,122
Letters of credit payable	-	27,314
Less: Provision in the form of cash deposit	(37,045)	(300,805)
Total loan commitments, less provisions in the form of cash deposits	1,783,941	2,107,014

As at 31 December 2022 and 2021, the allowance for expected credit losses on loan commitments amounted to UAH 5,652 thousand and UAH 1,336 thousand, respectively.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

29. Contingencies and other 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.

As at 31 December 2022 and 2021, loan commitments were neither past due nor impaired. Loan commitments by stages of impairment were as follows:

	31 December 2022	31 December 2021
Stage 1	1,439,631	2,406,732
Stage 2	380,696	983
Stage 3	659	104
Total	1,820,986	2,407,819

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 2022	31 December 2021
Loans and advances to customers used as a collateral under other borrowed funds (before allowance for expected credit losses)	512,808	622,842
Guarantee coverage within the payment systems of Visa and Master Card (before allowance for expected credit losses)	379,350	270,104
Funds placed with other banks that are used as a guarantee coverage	409,934	368,161
Investments in securities measured at fair value through other comprehensive income used as a guarantee fund for interest rate swaps with the NBU	59,578	53,645
Total	1,361,670	1,314,752

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

29. Contingencies and other commitments (continued)

Gross carrying value of the assets used as a collateral under the borrowing received from WORLDBUSINESS CAPITAL INC. (Notes 8 and 16) that secure for fulfillment of obligations amounted to UAH 512,808 thousand as at 31 December 2022 (31 December 2021: UAH 622,842 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 2022 amounting to UAH 435,414 thousand (31 December 2021: UAH 420,382 thousand).

Investments in securities measured at fair value through other comprehensive income used as a guarantee fund for interest rate swap operations with the NBU amounted to UAH 59,578 thousand as at 31 December 2022 (31 December 2021: UAH 53,645 thousand), with the actual amount of the guarantee fund, with reference to adjusting ratios, amounting as at 31 December 2022 to UAH 44,087 thousand (31 December 2021: UAH 49,775 thousand).

30. Derivative financial instruments

During 2022, 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.

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 12.00 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).

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

30. Derivative financial instruments (continued)

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

- For UAH, KIEIBOR rate with the period depending on the number of days to a transaction fulfillment. KIEIBOR (Kyiv Interbank Bid and Offered Rates) is an indicative rate of the cash market of Ukraine calculated by the Association of Ukrainian Banks, in cooperation with REUTERS news agency. The values of all components of KIEIBOR index are published on the pages in REUTERS terminal.
- 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 the 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;
- 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 values of due under interest rate swap agreements entered into by the Bank as at 31 December 2022 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.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

30. Derivative financial instruments (continued)

As at 31 December 2022, fair value of interest rate swap agreements was as follows:

	31 December 2022	
	Contracts with positive fair value	Contracts with negative fair value
Interest rate swap		
- Contract amount under exchange rate of the agreement	364,675	-
- Contract amount at fair value	415,677	-
Net fair value of interest rate swap agreement	51,002	-

As at 31 December 2021, fair value of interest rate swap agreements was as follows:

	31 December 2021	
	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	419,496	-
Net fair value of interest rate swap agreement	19,106	-

In 2022, the Bank reported profits on derivative financial instruments in the amount of UAH 56,934 thousand (2021: profits in the amount of UAH 11,365 thousand) in the statement of comprehensive income, profit or loss, which comprised the following components:

	For 12 months of 2022	For 12 months of 2021
Result on revaluation of interest rate swap agreements	31,896	26,073
Result on purchase and sale of foreign currency swap agreements	(10,366)	(14,624)
Result on purchase and sale of interest rate swap agreements	35,404	(84)
Net profit (loss) on transactions with financial instruments measured at fair value through profit or loss of other operating income	56,934	11,365

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

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 judgments 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. Certain financial assets and financial liabilities of the Bank are measured at fair value at the end of the reporting period. The following table presents information about methods of measuring fair values of those financial assets and financial liabilities (in particular, measurement techniques and inputs used):

Financial assets/financial liabilities	Fair value as at 31 December		Fair value hierarchy	Measurement techniques(s) and key inputs
	2022	2021		
Derivative financial assets:				
Interest rate swap	51,002	19,106	Level 2	Discounted cash flows. Future cash flows are measured on the basis of the information for which all key inputs may be, directly or indirectly, derived from observations in the market, and measurements use values of the Ukrainian Overnight Index Average (UONIA) and data of the zero-coupon yield curve for government bonds based on the Svensson parametric model.
Investments in securities measured at fair value through other comprehensive income:				
Foreign country bonds	742,758	165,997	Level 1	Quoted bid prices in an active market.
Domestic local loan bonds	-	25,748	Level 2	Discounted cash flows. Future cash flows are measured on the basis of the information for which all key inputs may be, directly or indirectly, derived from observations in the market, and measurements use one or several determined observable prices for ordinary transactions in the markets that are not considered to be active.
Domestic government loan bonds	1,184,159	-	Level 2	Discounted cash flows. Future cash flows are measured by using the observable market data in respect of securities with similar characteristics with the help of the zero-coupon yield curve for government bonds based on the Svensson parametric model.
Domestic government loan bonds	-	4,386,998	Level 1	Quoted bid prices in an active market.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

31. Fair value of financial instruments (continued)

As at 31 December 2022 and 2021, there were no transfers between levels of the fair value hierarchy, other than the transfer from Level 1 as at 31 December 2021 to Level 2 as at 31 December 2022 of domestic government loan bonds.

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, as at 31 December 2022 and 2021, the carrying values of financial assets and financial liabilities approximated their fair values, except for subordinated debt as at 31 December 2022, as presented in the table below:

	Carrying value	Fair value	Difference	Difference, %
Financial liabilities				
Subordinated debt	278,949	245,870	33,079	12%

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 and conditions of transactions with related parties are established at the time of the transaction. Related parties comprise major shareholders, entities under control of major shareholders, members of the Supervisory Board and the Management Board, and their immediate family members.

As at 31 December 2022, the outstanding related party balances were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties-individuals
Loans and advances to customers	24	-	39	-
Right-of-use assets	2	-	1	-
Other financial and non-financial assets	5	106	4	-
Due to other banks	-	95,994	-	-
Customer accounts	90,621	375,112	26,614	2,794
Subordinated debt	278,949	-	-	-
Lease liabilities	2	-	1	-
Other financial and non-financial liabilities	4,342	8,777	1,353	-
Loan commitments	58	-	269	-

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

32. Related party transactions (continued)

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

As at 31 December 2022, the Bank had obligations payable to key management personnel and major shareholders in the form of a provision for unused vacations in the amount of UAH 5,695 thousand (31 December 2021: UAH 10,233 thousand).

Income and expense items on related party transactions for the year ended 31 December 2022 were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties- individuals
Interest income	2	3,220	12	-
Interest expense	(18,101)	(30,709)	(689)	(1)
Commission income	1,058	46,041	357	125
Commission expense	-	(8,103)	-	-
Gains/(losses) on modification and de- recognition of financial instruments	(1)	5	-	-
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	38	(1)	-
Employee benefit expense	(112,903)	-	(20,398)	-
Other administrative and operating expense	(370)	(49,454)	(1,065)	-
Other gains (losses)	-	192	-	-

Remuneration to key management personnel (the Management Board) and the Supervisory Board for the year ended 31 December 2022 included short-term employee benefits that included salary and bonuses payable in cash amounting to UAH 94,084 thousand (2021: UAH 134,979 thousand). Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered relevant services.

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued) (in Ukrainian Hryvnias and in thousands)

32. Related party transactions (continued)

As at 31 December 2021, the outstanding related party balances were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties- individuals
Loans and advances to customers	3	41,893	188	-
Right-of-use assets	4	-	2	-
Other financial and non-financial assets	9	963	4	1
Due to other banks	-	28,165	-	-
Customer accounts	84,939	229,430	25,318	2,140
Subordinated debt	206,792	-	-	-
Lease liabilities	4	-	2	-
Other financial and non-financial liabilities	9,250	13,203	983	-
Loan commitments	99	8,890	681	-

Income and expense items on related party transactions for the year ended 31 December 2021 were as follows:

	Major shareholders and their family members	Entities under control of major shareholders	Key management personnel and their family members	Other related parties- individuals
Interest income	161	4,518	47	-
Interest expense	(12,986)	(26,867)	(938)	(13)
Commission income	1,095	71,892	462	239
Commission expense	-	(12,037)	-	-
Gains/(losses) on modification and de- recognition of financial instruments	2	(150)	-	-
Impairment gain and reversal of impairment loss (impairment loss) determined in accordance with IFRS 9	-	(34)	-	-
Employee benefit expense	(156,805)	-	(17,473)	-
Other administrative and operating expense	(694)	(154,759)	(925)	-

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Notes to the Financial Statements
for the Year Ended 31 December 2022 (continued)
(in Ukrainian Hryvnias and in thousands)

33. Events after the reporting period

On 27 January 2023, the Bank received from the National Securities and Stock Market Commission the Certificate of Registration of the Issue of Shares of PJSC “BANK VOSTOK” for the total amount of UAH 1,255,432,545.00, with the nominal value of UAH 408.47 per share, in the quantity of 3,073,500 shares. As at 3 February 2023, information about the Bank’s shares with the new nominal value was entered into the depository accounting system. Thus, as at 3 February 2023, the Bank completed the procedure of increasing the issued capital to the amount of UAH 1,255,432,545.00 (Note 19).

On 6 February 2023, the Bank’s issued capital was formed in full in accordance with the Bank’s Charter and was paid according to memorial warrant No. 6 dated 6 February 2023 in the amount of UAH 271,482,255.00 to the total of UAH 1,255,432,545.00.

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Welcome address of the Chairperson of the Management Board

Introductory word about the work of PJSC “BANK VOSTOK” in 2022

Despite the full-scale invasion and unforeseen challenges, we have succeeded in consolidating and focusing on core banking tasks — continued to provide full services to both individuals and legal entities.

PJSC “BANK VOSTOK” (hereinafter, the “Bank”) has not only supported current projects, but also developed and implemented new areas of work. We have thrived not just simply performing our direct duties efficiently from the onset of the full-scale war — we have also been able to do more: the team of employees have united their efforts to take care of customers in the difficult period, actively help the Armed Forces of Ukraine, and engage in volunteering.

Consistent operations of the Bank

We are proud to have organized and systematized work in such a way as to support customers at all levels. In the times when security comes first, the Bank has focused on remote service channels and promptly responded to all calls.

We have turned some of our branches into Invincibility Points — they rendered services to customers and, at the same time, could welcome people who just wanted to warm up or charge their devices. Thus, with the support of the Bank, a large Invincibility Point was opened in Odesa, with the floor space of 300 m². Heat, light, water, and the Internet — all this is ensured by the Point without interruption, regardless of the electricity supply in the city. It can accommodate up to 200 persons, and a children’s corner has been arranged for the little ones.

Despite all the difficulties of the war, we faithfully and responsibly fulfill the requirements of the National Bank of Ukraine and comply with International Financial Reporting Standards. Not only has the Bank lost its high standards of work, but on the contrary, it has adapted them to the new conditions in the shortest possible time. We currently live in the reality that may change in a matter of minutes, but we are responsible to our customers and continue to work quickly, calmly, and systematically.

Corporate business

Since the very beginning of the war, the Bank’s managers have been in constant contact with customers — representatives of international business. Despite the terrible events in the country, they continue to work tirelessly and promptly to resolve all necessary issues. We are grateful to our customers who have appreciated our efforts — this is evidenced by the fact that not a single international partner has left the Bank, and their trust is only increased. The Bank has demonstrated the most attentive and empathetic attitude towards the people we serve.

Understanding all the difficulties that customers may experience in Ukraine, we have helped them not only in banking, but also in resolving and arranging other issues — from the support related to running their businesses to relocation from dangerous places.

Participation in government programs

In 2022, we continued lending under the State Program “Affordable Loans 5-7-9%” implemented with the support of the Entrepreneurship Development Fund and the President of Ukraine.

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In March 2022, the Fund updated the Program and allowed not only medium and small businesses, but also large businesses to participate in it. Since the beginning of the full-scale invasion, lending has been mainly performed in two new areas: “Anti-War” and “Financing Agricultural Commodity Producers” to support businesses and entrepreneurs in the wartime, as well as financing the 2022 sowing campaign. Interest on loans in those areas was fully compensated by the Fund.

Development of services for individuals in the conditions of the war

During the crisis period for Ukraine, we have built our work in such a way as to provide services remotely, because, today, not everyone has an opportunity to visit a branch. For the safety and convenience of our customers, it is extremely important for us to ensure management of banking services online. So, for instance, customers have an opportunity to open cards online – by registering in the application, they receive a virtual card.

The Bank’s product and mobile application – Bank Vlasnyi Rakhunok created back in 2021 in the strategic partnership with the “Silpo” supermarket chain, the tastiest and most beloved brand of Ukrainians, has received a new development. This project has gained excellent results and continues to attract thousands of new customers.

The Bank has been one of the first to integrate the service for withdrawing cash from bank cards in the “Silpo” supermarket chain, as well as other retail chains. This practice has become very important for our customers both in the first months of the war and with the beginning of blackouts – when ATMs and terminals stopped working due to blackouts.

Employees of the Bank’s support service are our heroes. With the start of the full-scale invasion, we have organized their work 24/7 – so that, despite everything, we could stay in touch with customers, resolve issues, respond instantly to changes, and advise them in all non-standard situations.

Support and charity

In the first days of the invasion, many of our specialists joined the ranks of the Armed Forces of Ukraine, and we are very sorry that we cannot yet tell about their exploits. But we will definitely do it after our victory.

With the beginning of the military aggression against Ukraine, the Bank’s employees created a volunteer group which now has more than 300 people and still helps every day. We are constantly collecting donations for prompt and targeted assistance to military personnel and their families.

We do everything to ensure that our support to the defenders of Ukraine is quick and effective. For more than a year, we have been helping the 126th separate brigade of the Odesa Territorial Defense Forces. Those are the soldiers who have heroically defended the south of our Motherland from the first days.

PJSC “BANK VOSTOK”

Management Report for 2022

1. General information about the Bank

Nature of business

PUBLIC JOINT STOCK COMPANY “BANK VOSTOK” was established on the basis of the decision of the Constituent Founders’ Meeting of CJSC “Agrobank” dated 23 May 2002 in accordance with the Constituent Agreement dated 23 April 2002 and registered by the National Bank of Ukraine (the “NBU”) on 17 October 2002 as Closed Joint Stock Company “Agrobank”.

PUBLIC JOINT STOCK COMPANY “BANK VOSTOK” is a legal successor of all rights and obligations, funds and properties of PUBLIC JOINT STOCK COMPANY “HOME CREDIT BANK”, which, according to the minutes of the General Shareholders’ Meeting dated 1 February 2011, changed its name, a legal successor of OPEN JOINT STOCK COMPANY “HOME CREDIT BANK”, which, according to the minutes of the Constituent Shareholders’ Meeting No. 1 dated 16 December 2008, was reorganized through conversion, a legal successor of all rights and obligations, funds and properties of CLOSED JOINT STOCK COMPANY “HOME CREDIT BANK”, and a legal successor of all rights and obligations, funds and properties of Closed Joint Stock Company “Agrobank”.

1	Full name of the Bank in Ukrainian	ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «БАНК ВОСТОК»
2	Shortened name (used when conducting operations)	ПАТ «БАНК ВОСТОК»
3	Name in English	PUBLIC JOINT STOCK COMPANY “BANK VOSTOK”
4	Date of the state registration	17 October 2002
5	Registration number	12241050010009991
6	Location of the Bank	24 Kursantska Street, city of Dnipro, 49051, Ukraine
7	Amount of the Bank’s paid-in Issued capital as at 31 December 2022	UAH 983,950,290

The Bank is engaged in banking activities by rendering banking and financial services on the basis of the banking license entered in the State Register of Banks on the Right of a Legal Entity to Carry out Banking Activities No. 204, date of entry into the State Register of Banks 17 October 2002. In addition to banking and financial services, the Bank is also engaged in other activities as defined in Article 47 of the Law of Ukraine “On Banks and Banking”.

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 2022, the Bank did not purchase any shares. During 2022, the Bank did not repurchase its treasury shares.

The Bank’s registered address is at: 24 Kursantska Street, Dnipro, Ukraine. The Bank’s Head Office units are located at: 16 Kanatna Street, Odesa, Ukraine and 12 Krutohirnyi Uzviz, Dnipro, Ukraine. In particular, based on the banking license, the Bank has the right to render banking and other financial services (other than insurance services) and conduct other activities as defined in Art. 47 of the Law of Ukraine “On Banks and Banking” in both national and foreign currencies.

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

- Trade in currency valuables;

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- Attract financial assets with obligation of their subsequent return;
- Finance leases;
- Lend funds, including on financial lending terms;
- Issue guarantees;
- Transfer funds;
- Conduct professional activities in the capital market;
- Conduct factoring operations;
- Provide other financial services in accordance with the effective legislation of Ukraine.

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

- Make investments;
- Issue own securities;
- 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;
- Render consulting and information services in respect of banking and other financial services;
- Render administrator services on the issue of bonds in accordance with the Law of Ukraine “On Capital Markets and Organized Commodity Markets”.

The Bank is an active participant of the Ukrainian stock market and depository system, in particular:

- A client of PJSC “National Depository of Ukraine”;
- A client of the Depository of the National Bank of Ukraine;
- A client of PJSC “Settlement Center for Servicing Contracts in Financial Markets”
- A participant in tenders of PJSC “Stock Exchange “PFTS” and JSC “Ukrainian Exchange”;
- A member of the Professional Association of Capital and Derivative Market Participants (the “PACDMP”).

The Bank has gained many years’ experience in stock market by rendering custody services of a depository institution. The Bank conducts all types of transactions with securities stipulated by the NBU’s License No. 204 dated 18 October 2011 and licenses issued by the National Securities and Stock Market Commission:

1. License Series AE No. 286862 dated 8 May 2014 “Trading in Securities – Brokerage Activities” which, on the basis of Para. 10 Section XIII of the Law of Ukraine “On Capital Markets and Organized Commodity Markets”, is treated as re-issued to the license on conducting professional activities in the capital markets in respect of trading in financial instruments, which presupposes sub-brokerage and brokerage activities.
2. License Series AE No. 286863 dated 8 May 2014 “Trading in Securities – Dealer’s Activities” which, on the basis of Para. 10 Section XIII of the Law of Ukraine “On Capital Markets and Organized Commodity Markets”, is treated as re-issued to the license on conducting professional activities in the capital markets in respect of trading in financial instruments, which presupposes dealer’s activities.
3. License Series AE No. 263292 dated 10 September 2013 “Depository Activities – Custody Activities of a Depository Institution”.

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4. License Series AE No. 263291 dated 10 September 2013 “Depository Activities – Activities on Storing Assets of Joint Investment Institutions”.

The Bank is a participant of Individual Deposit Guarantee Fund (Registration Certificate No. 157 dated 19 November 2012), which operates under the Law of Ukraine “On Individual Deposit Guarantee System” No. 4452-VI dated 23 February 2012.

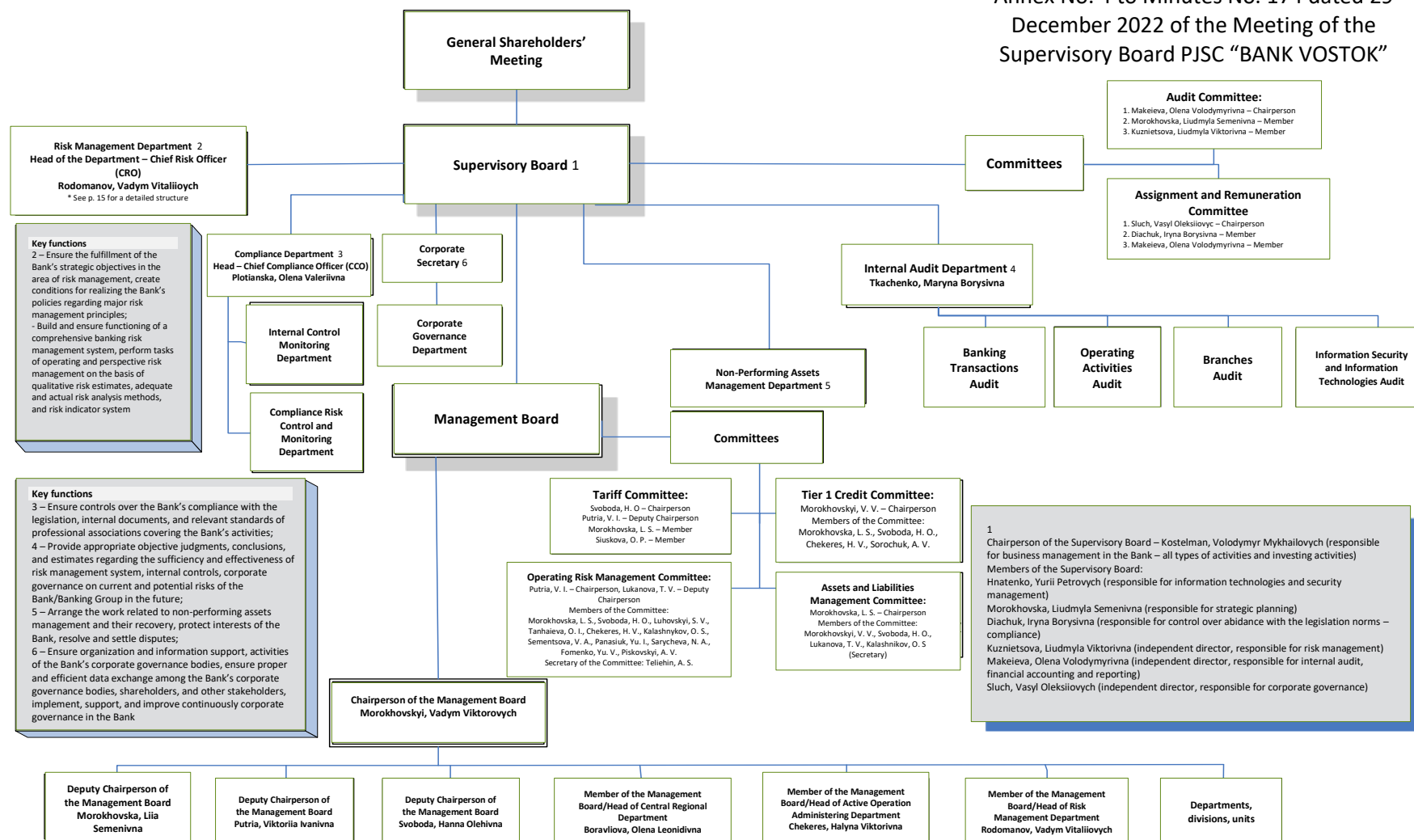
1.1. Major shareholders

The Bank’s sole shareholder owning 100% of its issued capital is Limited Liability Company “Vostok Capital” as established and operating under the laws of Ukraine. Major beneficiary owners of the Bank are Mr. V. M. Kostelman, Mr. V. V. Morokhovskiy, and Ms. L. S. Morokhovska.

1.2. Organization structure of the Bank and information about management

Organization structure of the Bank

Annex No. 4 to Minutes No. 174 dated 29 December 2022 of the Meeting of the Supervisory Board PJSC “BANK VOSTOK”



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The executive body of the Bank is the Bank’s Management Board, which manages the current activities of the Bank, the formation of funds necessary for the statutory activities of the Bank, and is 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 following standing committees created:

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

The Management Board determines tasks, functions, procedures for the work of committees of the Bank’s Management Board, and taking decisions by them in Regulations on relevant committees.

Composition of the Bank’s Management Board as at 31 December 2022:

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

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

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

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

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 does not participate in the current management of the Bank.

The Supervisory Board is responsible for ensuring the strategic management of the Bank and establishing a comprehensive, adequate, and effective risk management system in respect of the risks encountered by the Bank in its activities, as well as for creating and ensuring functioning in the Bank of an efficient process for managing non-performing assets.

The Supervisory Board ensures the compliance of the Bank’s development strategy, the Bank’s business development plan with the Bank’s main areas of activities as determined by the General Shareholders’ Meeting, as well as the Bank’s risk management strategy and risk profile.

The Supervisory Board ensures the implementation of corporate culture within the Bank which is focused on the norms of responsible and ethical behavior, defines the Bank’s corporate values, and ensures that the Bank’s managers, heads of control units, and other employees of the Bank be aware of them, and other interested persons have the opportunity to familiarize themselves with them.

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 Regulations 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 preventing, identifying, and managing conflicts of interest, i.e. contradiction between personal interests of an executive/another employee of the Bank or his/her related persons and obligation to act in the interests of the Bank.

Composition of the Supervisory Board of the Bank as at 31 December 2022:

Kostelman, Volodymyr Mykhailovych – Chairperson of the Supervisory Board.

Hnatenko, Yuriy Petrovych – Member of the Supervisory Board.

Morokhovska, Liudmyla Semenivna – Member of the Supervisory Board (member of Audit Committee).

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

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

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

Sluch, Vasyl Oleksiiiovych – Member of the Supervisory Board (independent director).
Chairperson of Assignment and Remuneration Committee.

Members of the Supervisory Board and the Management Board of the Bank 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.

1.3. Macroeconomic overview of external environment

According to the NBU estimates, in 2022, the economy of Ukraine shrank by 30.3% y/y. The main reasons for the deepest recession in the country's history were the consequences of the full-scale war: the destruction of infrastructure and production facilities, the breakdown of logistics links and drop in exports, the reduction in investments and weak consumer demand, including active migration, and, also, a significantly lower than a year ago harvest.

Investment activities experienced a deep decline, primarily in the private sector. Among the main reasons are uncertainty, high security risks, decrease in solvent demand, and deterioration of the entities' financial results. This, in particular, was evidenced by a significant decline in construction. Some support for investments was provided by the purchase and supply of weapons and equipment for the Armed Forces of Ukraine.

The grain harvest in 2022 reduced by 40%, although this mainly occurred due to a significant decrease in the harvested areas due to the occupation and mining of certain territories, as well as against the background of record harvests of the previous year. At the same time, thanks to a partial reorientation of spring crops in favor of rapeseeds and soybeans (which replaced part of corn), their harvest even exceeded the previous year's. Oil crop harvests turned out to be somewhat better than expected. In general, despite difficult and changing conditions, business and population have demonstrated the ability to adapt to new challenges quite quickly.

The dynamics of indicators in individual sectors of the economy in the period from January to June 2022, the publication of which was resumed at the end of the year by the State Statistics Service of Ukraine, shows that the recovery of a range of sectors began already in Quarter 2. In particular, the reorientation to military needs supported the recovery in food processing, pharmaceutical, light industry, and mechanical engineering, and the replacement of fertilizer imports from the Russian Federation and Belarus by domestic chemical industry.

In general, the banking system steadily responded not only to the first military challenges, by maintaining controllability and continuity of payments, but also persisted over a longer distance. Banks managed to maintain the flow of public funds into accounts and adapt operating processes to autumn-winter missile attacks and blackouts.

A decrease in the effectiveness of market instruments and high uncertainty in the conditions of the full-scale hostilities made it impossible to implement monetary policies in the traditional format of inflation targeting. For the purpose of preserving macroeconomic stability in Ukraine, curbing panic, and preventing an inflationary spiral, at the beginning of the full-scale war, the NBU forcibly fixed the exchange rate of UAH to USD and imposed a number of administrative restrictions, in particular, on currency transactions and capital movements.

The first steps on the way to restoring market principles of managing the financial system have already been taken. In June 2022, the NBU returned to active interest rate policies, by significantly raising the discount rate. The NBU also gradually reduced the amount of budget monetization and stopped issue funding from the beginning of 2023. At the same time, a tight link of the exchange rate to USD remains a key stabilization tool of monetary policies in the current environment. The NBU undertakes measures to balance the foreign exchange market and strengthen the effectiveness of transmission mechanisms of monetary policies, which are prerequisites for the NBU's return to the traditional format of inflation targeting.

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Inflation

According to the 2022 results, consumer prices increased by 26.6%. At the same time, during the recent three months, the inflation rate, in annual terms, almost did not change. Stabilization of inflationary pressure was facilitated by de-occupation of territories, expansion of food supply, and weaker consumer demand in the conditions of Russia's energy terror. Fixed tariffs for housing and communal services, a fixed exchange rate of UAH, and establishment of logistics kept inflation at bay.

At the same time, price pressures remain significant due to the effects of the war, including destruction of businesses and infrastructure, disruption of production and supply chains. In addition, business costs continued to rise as a result of Russia's energy terror. Inflationary expectations, despite stabilization, remained elevated.

Assets

Volumes of net assets in banks for 2022 increased by 7.3% (at the exchange rate fixed at the beginning of the year). The main driver for that was growth in the NBU's deposit certificates and cash on correspondent accounts with other banks.

The volume of gross UAH-denominated loans to corporations decreases for the second quarter in a row, in particular, government support programs are used less actively. The volume of gross UAH-denominated loans to individuals also decreases. A similar indicator in foreign currency fell by 42% due to the write-off of loans to individuals by the state-owned bank.

The volume of net UAH-denominated loans to business entities increased by 0.5% over the year. Net UAH-denominated loans to individuals decreased by 32.7% over the year.

During the year, a share of non-performing loans increased by 8.1 p.p., faster for individuals (by 13.6 p.p. to 30.4%) than for business entities (by 6.8 p.p. to 42.9%). The recognition of new NPLs (especially those with high collateral coverage) has reduced their provisioning ratio, but this ratio is still very high.

Funding

The volume of liabilities of solvent banks for the year increased by 18.8%, or 7.5%, at a fixed exchange rate at the beginning of 2022.

The share of customer accounts in the structure of liabilities increased by 1.1 p.p. to 87.9% due to a decrease in the share of the NBU's refinancing loans and a rapid increase in business funds.

Thanks to the replacement of expensive refinancing with customer accounts, the share of the NBU's funds in banks' liabilities decreased by 1.6 p.p. to the minimum level from September 2020 of 1.8%. UAH-denominated customer accounts increased over the year (31.2% y/y) mainly due to the increase in government payments.

Financial performance and equity

For the year, profits of the banking sector amounted to UAH 24.7 billion. Operating efficiency of the sector remained high: in Quarter 4 of 2023, CIR*, excluding revaluation of securities, currency, and derivatives, amounted to 39.8% compared to 53.8% in the previous year.

From the beginning of the year, adequacy of regulatory capital increased by 1.7 p.p.

Banking infrastructure

In 2022, banks reduced every fifth branch. Branches and personnel were mainly cut in the regions exposed to active hostilities or where they are currently taking place, and, therefore, the demand for banking services is lower. The largest reduction occurred in Kharkivska and Donetsk regions, Kyiv and Khersonska region. However, not all settlements provide banking services today.

In Quarter 4, despite the shelling of energy facilities, more than two-thirds of bank branches were constantly operating. Financial institutions continued to restore network operations in the liberated regions. The number of active payment cards grew slowly for two quarters in a row. In the last three months of 2022, their number increased in all groups of banks.

1.4. Business model of the Bank

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

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

Strategies of the Bank's development are based on the principles that presuppose a competitive ability, all-purposeless, reliability, innovation, professionalism, and prompt decision making. The increased competition makes the Bank actively apply and implement various means for attracting new and retaining existing customers. It is possible to gain competitive advantages and achieve unchallenged leadership in the banking service market only through rapid adjustment to changing external environment and ability to satisfy customer needs and create new highly technological banking products that will be in demand.

Changes in the components of activities for the period of the martial law do not change the main areas of the Bank's activities, its mission, vision, and declared values, and are focused on the determination and implementation of anti-crisis measures.

1.5. Major types of products and services

Services to corporate customers

From the very beginning of the full-scale invasion, the Bank faced challenges that required timely response, coordinated teamwork, cohesion, and ability to remain calm in unpredictable situations. Today, we can say that we have successfully coped and fully adapted our work to the conditions of the wartime.

One of the priorities has become maintaining a stable connection with customers — so that our help is always on time. From the first days to the present, the Bank holds regular conferences and meetings with CEOs and CFOs of international businesses to discuss current issues of their service with the Bank; provides answers regarding changes in the currency legislation and financial monitoring.

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Currently, the Bank provides services to many companies in the “international business” format. Thus, 60% of agents of international container lines are customers of our Bank. Namely, the brands CMA CGM, COSCO, ZIM, HAPAG LLOYD, ARKAS, and others.

For international customers, stability in business relations and timely communication are especially important – those issues are acute in the wartime conditions. Therefore, we immediately threw all our forces and resources into maintaining uninterrupted work and round-the-clock contact with local and head offices of our customers.

From the beginning of the armed aggression, one of our advantages also came in handy — the appointment of individual currency control managers for the Bank’s corporate customers. Those are the specialists who fully accompany the Customer and advise it in the conditions of frequent changes and additions to the currency legislation.

This level of attention and quality of work was appreciated first of all by customers — our Bank was quite often compared with subsidiary banks of international banking groups, where there were precedents when the currency control function was transferred even to call centers. After all, in such conditions, the Customers were not able to obtain complete and qualified information on foreign economic transactions.

The Bank acted within the framework of its business continuity management policies approved in 2019, and does not deviate from them even during the military operations. We continue to fulfill our obligations regarding the preservation of funds of corporate customers on the accounts and conducting the transactions allowed according to the relevant regulations of the National Bank of Ukraine.

The result of our high-quality and well-considered work was that not a single international corporate customer left the Bank. This is the greatest indicator of work efficiency and customers’ confidence in the Bank’s stability even in the times of crisis. Loyalty and trust in the Bank only strengthened — because we have shown our partners that we can demonstrate high standards of work even in the crisis conditions.

Loans to individuals

In 2022, the Bank concentrated the process of granting loans to individuals mainly in the form of opening overdraft limits to cardholders of the Bank Vlasnyi Rakhunok (Own Account) product, whereas, every month, loans were granted within a certain limit for the total amount, with reference to the current state of the loan portfolio for that product, such as: yield, level of NPLs and recovery percentage of such loans, utilization rate by amount and quantity, etc. For 2023, there are plans to expand the line of loan products for cardholders of the Bank Vlasnyi Rakhunok product, such as:

- Granting consumer loans in the form of transferring the existing debt into a loan in the form of a non-renewable credit line, “Instalment Plan based on Statement”;
- Granting short-term (up to 1 month) loans in the form of a term loan to customers receiving salaries on current accounts at the Bank, “Salary in Advance” loan.

Correspondent relations

As at 31 December 2022, the Bank had 34 correspondent accounts of NOSTRO type opened in 12 banks, both largest foreign banks of the world: THE BANK OF NEW YORK MELLON USA, Raiffeisen Bank International AG AUSTRIA, UNICREDIT BANK AG (HYPOVEREINSBANK) GERMANY, and Ukrainian financial institutions: JSC “Ukreximbank”, JSC “Raiffeisen Bank Aval”, PJSC “Citibank”, PJSC JSB “UKRGAZBANK”, JSC “Oshchadbank”. By using those correspondent accounts, the Bank makes payments in 8 currencies, which allows the Bank’s customers making settlements on foreign economic contracts in the shortest possible time, with conversion to 123 currencies of the world. As at 31 December 2022, the Bank had 9 correspondent accounts of LORO type opened for two banks.

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Effective from 2022, the Bank is an active participant in international financial markets through DEPO operations with investment-grade banks.

Depository activities

The Bank, pursuant to the Licenses issued by the NSSMC, performs the following types of depository activities:

- Custody activities of a depository institution;
- Storage of assets under collective investment schemes.

PJSC “BANK VOSTOK”, as a depository institution, has accounts opened with the National Depository of Ukraine and the Depository of the National Bank of Ukraine. The Bank is a participant of the Professional Association of Derivative and Capital Market Participants. The Bank consistently participates in the NBU’s tenders on placement of short-term deposit certificates issued by the National Bank of Ukraine.

During 2022, in particular, from 1 January 2022 to 31 December 2022, the Bank conducted 252 transactions in the NBU’s SertLine system on purchases of depository certificates issued by the National Bank of Ukraine in amount of UAH 534,960,000 thousand.

In 2022, the volume of accounting transactions with corporate and government securities amounted to UAH 3,317,964 thousand at the nominal value. It is evident that the dynamics of accounting transactions is high.

As at 1 January 2023, the volume of the Bank’s depository assets on storage with the depository institution amounted to UAH 8,423,208 thousand.

As at 1 January 2023, the Bank, as a depository institution, was servicing 194 issues of securities.

During the wartime, it became relevant to hold general meetings remotely. As a depository institution, PJSC “BANK VOSTOK” received access to the CABINET OF FEES for its depositors. During the second half of the year, 24 agreements were concluded to confirm the depositors’ signatures on the ballots. With the help of the CABINET OF MEETINGS, 12 general meetings were held with the participation of the Bank.

The Bank provides depository services on 52 accounts in the securities of joint investment institutions (JIIs). Commission income on depository activities for the 12 months of 2022 amounted to UAH 1,246 thousand.

Trading in securities

PJSC “BANK VOSTOK” is an investment firm and has the following types of licenses issued by the National Securities and Stock Market Commission on conducting professional activities related to trading in financial instruments:

- Dealer’s activities;
- Brokerage activities;
- Sub-brokerage activities.

As part of its dealer’s activities, the Bank invests its own funds in national and foreign currencies in financial instruments in the domestic and foreign capital markets. The portfolio of the Bank’s own securities includes various types of bonds, including domestic government loan bonds (DGLBs) in national and foreign currencies, national currency denominated domestic local loan bonds, government bonds of foreign countries that have investment class ratings assigned by leading international rating agencies. In order to manage the Bank’s short-term liquidity, funds in national currency are invested in deposit certificates issued by the National Bank of Ukraine. The carrying value of the Bank’s securities portfolio as at 31 December 2022 in UAH equivalent amounted to UAH 6,332,462 thousand, and increased by UAH 22,298 thousand compared to the previous year.

As part of its brokerage and sub-brokerage activities, the Bank provides investment services to its customers relating to purchase, sale, exchange of financial instruments on behalf of and in the interests of customers. The Bank performs investment operations of its customers both in the regulated and unregulated (over-the-counter) Ukrainian capital market, and in the international market by using the services of leading European investment firms. The objects of investments of the Bank’s customers are mainly domestic government loan bonds, foreign government loan bonds, corporate bonds, including those of foreign issuers, as well as shares and securities of joint investment institutions. During 2022, the Bank concluded agreements within the framework of its brokerage activities at the cost and in the interests of its customers for the total amount of UAH 96,089 thousand.

Documentary operations

The Bank traditionally offers to its customers a complete range of services on documentary operations: bank guarantees, counter-guarantees, documentary letters of credit and collection, and trade finance related services.

Information about other services rendered by the auditor, other than the statutory audit services

In 2022, LLC “Deloitte & Touche USC” did not provide the Bank with the services, other than the statutory audit services.

In 2022, LLC AF “KAUPERWOOD” provided to the Bank the services on review of the Bank’s interim financial statements as at 30 September 2022 for submitting a package of documents to register the issue of shares due to the increase in the Bank’s issued capital through the increase in the nominal value of shares.

1.6. Achievements of the Bank

The Bank joined the unified banking network of the NBU POWER BANKING – a network of regular branches of Ukrainian banks that work during blackouts. Today, the Bank has 74% of branches that stay on duty.

In December 2022, with the support of the Bank and Charitable Foundation “Myloserdia Viktor”, a large Invincibility Point was opened, with the floor space of 300 m², which can accommodate up to 200 people. It is located at the address: 39b Hrushevskoho Str., Odesa.

In December 2022, the Bank was the first Ukrainian bank to purchase “Sovereignty of Ukraine” bonds issued by the Government of Canada. “Sovereignty of Ukraine” bonds are aimed at financial support of Ukraine. Money from the sale of bonds will help the Government of Ukraine to continue providing basic services to Ukrainians.

In November 2022, for the purpose of supporting the military, Bank Vostok, Charitable Foundation “Myloserdia Viktor”, and the 126th Separate Brigade of the Odesa Territorial Defense Forces signed an open-to-access Memorandum of Interaction and Cooperation. Thus, assistance to the brigade is provided constantly and promptly.

Despite the state of the war, the Bank ensured uninterrupted work, helped many customers with business relocation to safer regions of the country, and did not lose a single international customer.

The Bank’s product – Bank Vlasnyi Rakhunok (Own Account) – received a bronze prize in the nomination “The Best Online Identification Service in a Bank” in the contest of the RaySpace Magazine Awards 2022.

5. Objectives of management and strategies for 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.

The Bank’s strategic objective is to ensure the continuous profitable operation and development of a reliable, universal financial institution that provides a full range of modern banking services to legal entities and individuals regardless of their forms of ownership in the new conditions of existence, further increasing the amount of equity; maintaining liquidity at a sufficient level, as well as ensuring the timely implementation of legal requirements and the most effective methods and liquidity management systems.

To improve the Bank’s rating positions in respect of lending to individuals, the Bank decided to implement a new product called “The Bank Vlasnyi Rakhunok (Own Account)”, which presupposes the following:

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

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.

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.

PJSC “BANK VOSTOK”

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Norms and requirements of functioning of 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 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 by structure 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 competences, the authorities and duties in respect of ICS, ensure compliance with corporate values and control culture;
- Business and support units of the Bank that initiate, perform, or record operations, accept risks in the course of their activities, and bear responsibility for current management of those risks, undertake controls within their authorities established by the Bank’s internal documents;
- Risk coordinators of business and support units determined by the Bank’s internal documents that perform internal controls within the functions determined by those documents;
- Other heads of units and employees engaged in internal controls in accordance with the authorities determined by internal banking documents.

Second line of defense:

Risk Management Department and Compliance Department as well as, within the scope of their powers, regarding financial monitoring issues – the Financial Monitoring Department and the Responsible Bank Employee, that monitor the efficiency of controls in the first line of defense within functions of independent control in the second line of defense, within their functional authorities, ensure implementation and efficiency of risk management system in accordance with the requirements of the effective legislation and internal regulations of the Bank on risk management, and ensure confidence of the Bank’s leaders that controls and risk management measures set in the first line of defense have been developed and function properly.

Third line of defense:

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

The Bank applies controls to achieve the following:

- Prevent violations by preventing deficiencies/inconsistencies/violations (including through determining authorization rules for transactions or controls of granting access);
- Identify violations by identifying deficiencies/inconsistencies/violations (including through double or automated control, self-control/self-assessment);
- Rectify violations by correcting deficiencies/inconsistencies/violations (including through ensuring automated correction of errors in the Bank’s information systems).

2.1. Vision, mission, and values

Mission of the Bank

We are a family bank. We value each of our employees and each of our customers. We cherish relationships and increase values. We are created to help our customers develop and, through joint efforts, make their businesses stable and prosperous, preserve and multiply assets. We are a bank with a long-term development perspective. We strive to be reliable and stable in any conditions. We create traditions that will be passed down from generation to generation. We ensure confidence and reliability. We make life better by helping dreams come true.

Vision of the Bank

PJSC “BANK VOSTOK” is a modern, innovative, technological bank whose activities are integrated into the international financial environment that offers customized services and a high level of service, is always ready to respond to new needs of customers and has gained their high confidence, whose activities are aimed at promoting the development of customers’ businesses and improving their financial well-being through providing traditional banking services and implementing the latest digital and mobile technologies. It is a viable and gradually growing bank that applies a professional approach to risks and is ready for any business development scenarios.

Values of the Bank

- Open and transparent conditions for operations in the market.
- Strict abidance by the legislative regulations, rules, and standards.
- Continuous development, striving to be a step ahead of competitors.
- Paying attention to individual needs of each customer.
- Devoted attitude to common work and personal responsibility of each employee.
- Well-coordinated teamwork.

2.2. Achievements in the area of research and developments, innovations

Optimization of the banking services processes will be aimed at their simplification, standardization, and automation. This will allow increasing the efficiency of the processes, facilitating document flow, formalizing the system of analytical evaluation of a number of loan products, and improving the quality of customer services. Considering modern requirements to financial institutions, the issues of the Bank's information policies come to a priority level.

In the conditions of the military aggression of the Russian Federation and the COVID-19 coronavirus pandemic, the Bank aims at developing remote customer service channels, including remote identification and video verification, integration with the Diia service, in order to provide qualitative services and open new banking products remotely.

For this purpose in mind, the Bank continues developing key projects that ensure qualitative remote services, in particular:

- Automated decision-making system (ADS) which ensures integration with Diia, BankID and, using which, scoring algorithms are improved. The Bank continues developing remote opening of card accounts, works on a possibility of opening deposits and placing military bonds. ADS provides for and, in accordance with the recommendations of the NBU, Liveness Detection functionality has been developed which is aimed at protecting against fraud. In the future, the scoring algorithms are going to be improved in the process.
- Realizing the importance of rendering high-quality information services, the Bank continues improving the new customer relationship management (CRM) information system, on the basis of which a high-quality segmentation of the customer base will be performed, and an individual approach to the customer is going to be implemented. As part of the CRM system, the Bank will consolidate all the information it has about a customer – products, transactions, applications, contacts with the customer, etc. The system will be integrated with the customer application software. With the help of BigData, an intellectual approach for cross-selling will be realized, credit scoring will be improved, and telemarketing databases will be created.
- The Bank is developing its own video identification procedure, which it plans to use in most products – “Bank Vlasnyi Rakhunok (Own Account)”, remote opening of accounts by individual entrepreneurs, etc., which will allow the Bank's customers to use not only simplified identification, but also fully get use of the Bank's services – go through a re-identification procedure, send documents to the Bank using the Diia system, make a secure call to the Bank. In the future, the Bank will work on the processes aimed at improving the procedure and tools in the video identification process. As part of the video identification procedure, in accordance with the Know Your Client (KYC) principle, the Bank will collect, store, and analyze call data, markers, and indicators that will help determine the likelihood of fraud.
- In the CRM system, a workplace for a Call Center operator has been implemented, which has allowed to serve customers better. As part of the software complex, the operator will be able to safely and promptly provide assistance to customers, as all information from CRM and other systems of the Bank will be consolidated in one place. Also, in the CRM system, a Solomon workplace for a branch manager is being developed, with the help of which it will be possible to fully and qualitatively serve customers in the Bank's branch. The workplace has been developed and implemented for an operator of the Soft-Collection – Collection team.

- Payment card transactions in the Bank are recorded by using the IS-Card issuance and retail service system. The system contains all the necessary tools for building long-term relationships with customers and developing loyalty programs. However, considering the rate of growth of transactions with payment cards and the number of card products, the Bank continues implementing the new SOLAR back-office card system, to which one of the banking products has already been migrated. All other card products of the Bank are also planned to be migrated.
- Search system of customer databases called SOPHIA collects and consolidates all information on the existing and potential customers of the Bank, allows performing reviews in public and commercial databases. Within the framework of the system, the Bank continues to integrate with the Ukrainian Bureau of Credit Histories (the UBCH), YouControl, state registers, which undoubtedly improves customer search algorithms.
- Realizing the importance of timely access to customers' cases and in connection with the development of remote identification channels, the Bank is implementing data storage in an electronic archive called Alexandrina. It is planned to implement the electronic document management system based on the archive. Customers' legal files are going to be digitized, and the existing electronic documents from IS-Card will be transferred and arranged, and the documents received from the Diia, BankID applications, and other accredited sources will be stored.
- The Bank continues developing and improving the new version of the My Bank Vostok mobile application and web banking, which will implement a full range of services, remote authorization, currency exchange, opening deposits, and obtaining loans.
- The Bank has implemented an electronic document flow system e-Docs.Platform, in the part of processing the Bank's internal documents on the basis of the electronic document flow system e-Docs.Platform, and new business processes are being set up and integrated with the processes that the Bank already uses in its applications and services.

The Bank continues improving and optimizing the mobile application of “Bank Vlasnyi Rakhunok” – a new remote banking service channel, which is based on the ease of opening and using the Bank's products.

The Bank has developed the application on iOS and Android platforms (including HUAWEI AppGallery), which allows a customer to receive a plastic or virtual payment card of the Bank, including a possibility of simplified identification (customer photo processing) and full video identification, and integrate with the Diia services – which expands the customer base without any load on the Bank's branch. In addition, to simplify the process of registering new customers, it is planned to integrate the mobile application with BankID services.

The automated decision-making system (ADS) for loan applications, which combines a sufficiently large number of integrations and artificial intelligence algorithms, offers an opportunity to quickly and qualitatively assess the customer's financial position and grant a competitive credit limit, represents a powerful tool in increasing the growth rate of the loan portfolio of individuals. The next step is to improve the automated loan portfolio management algorithms (fraud prevention, behavior/collection scoring).

Integration of the application with well-known electronic wallets (Apple Pay, Google Pay) and a wide range of services (transfers, utility payments, mobile top-up) makes it convenient to use, and participation in the “Bank Vlasnyi Rakhunok” loyalty program of “Silpo” supermarkets network gives it an advantage compared to other applications in the banking sector and fintech direction. IT Department is working on the development of gamification algorithms in the application, which will help improve the onboarding process of customers.

Automation of the factoring process is also an important project for ensuring the business strategy.

The Bank has successfully been certified for compliance with the requirements of PCI DSS (Payment Card Industry Data Security Standard), proper implementation of security requirements in accordance with the recommendations of SWIFT Customer Security Controls Framework 2021 Standard. Thanks to this, the Bank's customers can be sure of the reliability and safety of the remote services provided.

Owing to the available PCI DSS compliance certificate, the Bank is able to develop its own e-commerce portal E-COMMERCE, which will allow rendering better and modern services to electronic acquiring customers.

The construction of its own Security Operations Center (SOC) will provide an opportunity to significantly increase the level of protection of the Bank's information assets and customer data at both the organizational and technical levels.

SOC will allow automating the process of monitoring, identifying, responding to information security incidents, preventing in a timely manner cyber threats to corporate information systems of the Bank (websites, applications, databases, data processing centers, servers, active network equipment, computers, and other end equipment).

For the Bank's customers, this is an additional confirmation of the seriousness of the Bank's efforts to ensure the appropriate level of information security of card data and international payments, evidence of the priority of those tasks for management.

In addition, this is a confirmation of the Bank's reputation and its efforts to preserve customer data and their confidence.

6. Resources, risks, and relationships

3.1. 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 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 2022, 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.

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.

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

Based on the 2022 performance, the Bank received profits in the amount of UAH 275,524 thousand.

In 2023, the Bank plans to increase its issued capital by the amount of UAH 261,748 thousand at the cost of profits of the 2022 reporting year. An increase in the issued capital enables the Bank to continue to develop. The Bank will direct the entire profits of 2022 to the issued capital, less mandatory deductions to the reserve and other funds of the Bank, which is 5% of the profits.

Customer accounts represent a key source for the Bank’s resource base. 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 businesses and individuals. Thus, it ensures comprehensive services to the sphere of consumer interests of the Bank’s customers and their partners.

Another opportunity is applying standard tools of the National Bank of Ukraine for regulating liquidity. On the second day of the full-scale invasion, the Bank got used of a refinancing borrowing from the National Bank of Ukraine, which was early repaid.

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.

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

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

- Attracting a subordinated debt. As at 31 December 2022, the carrying value of the subordinated debt amounted to UAH 278,949 thousand (31 December 2021: UAH 206,792 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. Against the background of the military aggression from the Russian Federation, in June 2022, the Bank signed with WORLDBUSINESS CAPITAL, INC., USA, additional agreements the terms and conditions of which stipulate for extending borrowing terms by two years and postponing quarterly repayments of borrowings effective from 20 June 2022 by two years, as well as reducing the margin by 0.5%.

3.2. Risk management system

The main strategic task for risk management system functioning is to minimize possible financial losses (loss of revenue) from the effects of risks to which the Bank is exposed and ensure the financial stability and long-term resilient development of the Bank in accordance with the objectives set in the Bank’s Strategic Development Plan.

The Bank pays a great attention to effective risk management through achieving an optimal balance of risk and profit-making.

The Bank consistently improves its risk management system, the approaches to risk and capital management taking into account internal models by ensuring the necessary infrastructure and development of information systems, applies the established risk management practices by paying special attention to significant types of risks (credit risk, liquidity risk, operating risk, market risk, interest rate risk of banking books, and compliance risk).

The Bank’s risk management system is built on the principles that meet the requirements of the legislation of Ukraine, the NBU’s regulations, international standards and best risk management practices and is based on the Bank’s Strategic Development Plan, Risk Management Strategy, the Risk Appetite Declaration, the Corporate Code, individual risk management policies, as well as methods and procedures for managing significant types of risks, which ensures determination of appropriate limits, introduction of reliable control procedures, as well as control of risks and their level in accordance with the established limits using administrative means and means of information systems.

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 it considers to be significant:

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

During the large-scale military operations since the end of February, no active lending is performed, the main work is concentrated on improving the quality of the Bank’s loan portfolio.

- 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.
- 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.
- 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.

During the reporting period, the Bank's risk management system functioned taking into account the situation and negative consequences of the Bank's activities as a participant in the domestic banking market, which arose in connection with the armed aggression of the Russian Federation and introduction of the martial law in Ukraine, which affected the political and financial and economic situation in the country, application of a large number of restrictive measures by the regulator in connection with introduction of the martial law, implementation of a large number of changes to the effective legislation in banking and private business, legislative and economic restrictions, a sharp deterioration in the general economic situation, inflation, changes in credit and monetary policies of the country, force majeure circumstances, an increase in the level of cyber threats, spread of new types of fraud, fierce competition in the banking market, as well as the extension of quarantine in connection with the spread of the COVID-19 coronavirus infection.

Considering that the increase in indicators of significant risks in the current situation is natural, the Bank concentrates its efforts on reducing risks, continues collecting data on the current position of borrowers, conditions of their operations and difficulties/limitations in their activities in connection with the military aggression, performs work aimed at reducing past due amounts, ensures monitoring, data accumulation, and management awareness of the risk profile.

The Bank consistently monitors its risk appetite and indicators of the Business Recovery Plan (hereinafter, the "BRP"), conducts timely reviews of internal banking documents for the purpose of improving the system of limits and indicators, in connection with the need arising in the course of its operations, in particular, in stressful situations under the wartime conditions, information systems are being refined to provide analytics and visualization of the necessary information, risk indicators, including in dynamics and required breakdowns.

Preventing a significant influence of the mentioned factors on the Bank's activities, as well as monitoring the Bank's degree of dependence on legislative or economic restrictions are achieved by introducing internal controls in the Bank's activities – a process integrated into all processes and corporate governance of the Bank aimed at achieving operating, information, compliance goals in the Bank's operations, taking, in a timely manner, balanced management decisions in the wartime conditions, as well as introducing a culture of risk management which is in compliance with the Bank's principles, rules, norms aimed at informing all the Bank's employees about risk acceptance and risk management, in particular, through determining and approving the Bank's risk appetite which is determined by the aggregate amount for all types of risks and separately for each of the risks determined in advance and within a permissible level of risk, in respect of which the Bank has decided on their adequacy/need to maintain in order to achieve its strategic goals and implement business plans.

Compliance risk management in the Bank is fully integrated into the general risk management system of the Bank and 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;
- Implementing a system of limits and restrictions on compliance risk;
- Developing/updating relevant standards, instructions, procedures, when needed, with the participation of Compliance Department.

3.3. 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 identification, determination, monitoring, reporting, management, and control of 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.

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 who, in particular, ensure control over the Bank’s compliance with the norms for determining a list of the Bank’s related parties to ensure integrity and completeness of the process for identifying the Bank’s related parties and monitoring transactions with them.

During 2022, the Bank performed active operations with related parties, with reference to restrictions for the martial law period imposed by Resolutions of the National Bank of Ukraine, 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.

7. Analysis of key performance

4.1. Financial performance

In 2022, the Bank's performance that makes 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 2022 amounted to UAH 19,970,356 thousand, which was by UAH 483,999 thousand, or 2.5%, more than in the previous year (31 December 2021: UAH 19,486,357 thousand).

The Bank's assets as at 31 December 2022 had the following structure:

- Cash and cash equivalents amounted to UAH 3,862,640 thousand, or 19%, of total assets (31 December 2021: UAH 3,214,337 thousand, or 16%, of total assets);
- Loans and advances to banks amounted to UAH 889,780 thousand, or 4%, of total assets (31 December 2021: UAH 368,094 thousand, or 2%, of total assets);
- Loans and advances to customers amounted to UAH 8,208,056 thousand, or 41%, of total assets (31 December 2021: UAH 8,874,102 thousand, or 46%, of total assets);
- Investments in securities amounted to UAH 6,332,462 thousand, or 32%, of total assets (31 December 2021: UAH 6,310,164 thousand, or 32%, of total assets);
- Intangible assets, other than goodwill, amounted to UAH 40,990 thousand, or 0.2%, of total assets (31 December 2021: UAH 40,984 thousand, or 0.2%, of total assets);
- Property and equipment amounted to UAH 65,660 thousand, or 0.33%, of total assets (31 December 2021: UAH 90,936 thousand, or 0.47%, of total assets);
- Right-of-use assets amounted to UAH 78,163 thousand, or 0.4%, of total assets (31 December 2021: UAH 83,169 thousand, or 0.4%, of total assets);
- Other financial assets amounted to UAH 388,294 thousand, or 2%, of total assets (31 December 2021: UAH 424,712 thousand, or 2%, of total assets);
- Other financial assets amounted to UAH 42,500 thousand, or 0.2%, of total assets (31 December 2021: UAH 58,176 thousand, or 0.2%, of total assets).

In 2022, the Bank's equity increased by UAH 170,403 thousand, or 13%, and, as at 31 December 2022, amounted to UAH 1,488,800 thousand.

Based on its performance, in 2022, the Bank received net profits in the amount of UAH 275,524 thousand, which was by UAH 10,260 thousand, or 3.6%, less than in 2021.

Net commission income of the Bank for 2022 amounted to UAH 698,057 thousand, which was by UAH 100,679 thousand, or 17%, more than in 2021.

Gains on foreign currency operations of the Bank in 2022 amounted to UAH 223,266 thousand, which was by UAH 174,860 thousand, or 361%, more than in 2021 (UAH 48,406 thousand).

Other administrative and operating expense of the Bank in 2022 decreased by UAH 113,431 thousand, or 21%, and amounted to UAH 434,428 thousand.

Employee benefit expense of the Bank in 2022 amounted to UAH 539,190 thousand, or 49% of operating expense.

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Depreciation and amortization charges of the Bank in 2022 decreased by UAH 15,998 thousand, or 12%, and amounted to UAH 120,492 thousand.

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

During 2022, the volume of loans granted (net of allowances for impairment of loans) increased by UAH 69,409 thousand, or 0.8%, to UAH 9,172,007 thousand as at 31 December 2022.

During 2022, the volume of loans granted to legal entities (net of allowance for loan impairment) increased by UAH 57,853 thousand, or 0.6%.

The Bank provided lending to entities of trade (48% of loan portfolio to legal entities), agriculture and food processing (20%), manufacturing (15%), transport and communication (8%), construction and real estate (3%), and other (6%).

The volume of loans granted to individuals (net of allowance for loan impairment) increased by UAH 11,556 thousand, or 11%, and, as at 31 December 2022, amounted to UAH 113,353 thousand.

As at 31 December 2022, total gross value of loans granted to top 10 borrowers of the Bank amounted to UAH 1,856,485 thousand, or 20%, of total loan portfolio. In addition, as at 31 December 2022, loans to top 10 borrowers of the Bank were partially secured by the pledge of property rights to deposits in the amount of UAH 329,055 thousand (31 December 2021: UAH 252,704 thousand).

Due to other banks included term deposits and, as at 31 December 2022, amounted to UAH 889,780 thousand, which was by UAH 521,686 thousand, or 142%, more than as at 31 December 2021.

Investments in securities as at 31 December 2022 remained almost unchanged and amounted to UAH 6,332,462 thousand, which was by UAH 22,298 thousand, or 0.4%, more than as at 31 December 2021.

The Bank’s securities portfolio comprised the following:

- Domestic government loan bonds in the amount of UAH 1,184,159 thousand;
- Deposit certificates issued by the NBU in the amount of UAH 4,405,545 thousand;
- Securities of foreign countries in the amount of UAH 742,758 thousand.

The Bank’s liabilities increased by UAH 313,596 thousand, or 1.7%, and, as at 31 December 2022, amounted to UAH 18,481,556 thousand.

The volume of balances on customers’ current accounts for 2022 increased by UAH 1,419,219 thousand, or 11%, and, as at 31 December 2022, amounted to UAH 13,970,003 thousand, which was 76% of the Bank’s total liabilities.

As at 31 December 2022, the balances on current accounts of legal entities amounted to UAH 10,727,332 thousand, or 77%, of total customer accounts.

As at 31 December 2022, the balances on current accounts of individuals amounted to UAH 3,242,671 thousand, or 23%, of total customer accounts.

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As at 31 December 2022, included in current account balances were deposits “on demand” in the total amount of UAH 90,377 thousand (31 December 2021: UAH 185,296 thousand), of which UAH 23,822 thousand belonged to individuals (31 December 2021: UAH 27,457 thousand), and UAH 66,555 thousand to legal entities (31 December 2021: UAH 157,839 thousand). Interest rates on such deposits amounted to the range from 0.01% to 9% p.a., depending on the account balance.

As at 31 December 2022, total amount of cash of the Bank’s top 10 customers on current accounts amounted to UAH 3,526,056 thousand (31 December 2021: UAH 3,472,866 thousand).

As at 31 December 2022, included in customer accounts were deposits in the amount of UAH 950,989 thousand placed by customers as a collateral to secure for loans and advances to customers in the amount of UAH 808,595 thousand (31 December 2021: UAH 651,849 thousand placed by customers as a collateral to secure for loans and advances to customers in the amount of UAH 496,162 thousand).

The Bank’s deposit portfolio during 2022 decreased by UAH 1,317,854 thousand, or 27%, and, as at 31 December 2022, amounted to UAH 3,515,342 thousand, which was 19% of the Bank’s total liabilities.

Deposits of legal entities amounted to UAH 1,829,005 thousand, or 52%, of total deposit portfolio of the Bank.

Deposits of individuals amounted to UAH 1,686,337 thousand, or 48%, of total deposit portfolio.

As at 31 December 2022, total amount of cash of the Bank’s top 10 customers on deposit accounts amounted to UAH 1,609,230 thousand, or 46% (31 December 2021: UAH 2,104,451 thousand, or 44%) of total deposit portfolio.

During 2022, the Bank’s due to other banks increased by UAH 82,152 thousand, or 188%, and, as at 31 December 2022, amounted to UAH 128,948 thousand, which amounted to less than 1% of total liabilities.

As at 31 December 2022, the largest amount of due on correspondent accounts and overnight deposits of other banks was due in the amount of UAH 97,458 thousand to one non-resident bank, which was 76% of total due on correspondent accounts and overnight deposits of other banks.

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.

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4.2. Economic indicators

Against the background of unfavorable events in the country in 2022, the Bank’s activities led to the preservation of the main indicators at the level of previous years. Given below is a comparison of 2022 to 2021 and 2020 year indicators:

	2022	2021	2020
Average assets, UAH thousands	18,518,873	16,826,718	12,929,993
Average equity, UAH thousands	1,239,215	1,011,843	870,051
Financial result, UAH thousands	275,524	285,784	149,490
Return on assets (ROA)	1.5%	1.7%	1.2%
Return on equity (ROE)	22.7%	27.7%	17.2%

Net interest income, before impairment losses/(recovery), on interest-bearing assets amounted to UAH 1,074,000 thousand in 2022 and UAH 943,049 thousand in the previous year. In 2022, the increase in the effective interest rate on interest-bearing assets (from 8.86% in 2021 to 9.46% in 2022) and interest-bearing liabilities (from 2.74% in 2021 to 3.58% in 2022) led to an insignificant increase in interest margin to 6.06% in 2022 from 6.14% in 2021 due to a significant decrease in interest-bearing assets at the beginning of the hostilities in 2022.

The share of interest income in the Bank’s revenue changed from 56% in 2021 to 52% in 2022, and the share of commission income in revenue from 40% to 33% in 2022. In addition, the share of trade income grew from 2% to 17% as a result of growth in foreign exchange rates.

In 2022, the Bank’s net operating income amounted to UAH 338,698 thousand compared to 2021 – UAH 345,164 thousand.

The Bank’s expense structure changed in terms of the decrease in administrative and operating expense (from UAH 1,242,854 thousand in 2021 to UAH 1,094,110 thousand in 2022). Commission expense increased from UAH 380,285 thousand in 2021 to UAH 392,398 thousand in 2022.

Allowance expense (impairment loss) increased from UAH 19,085 thousand in 2021 to UAH 827,062 thousand in 2022.

The comparative data regarding the allowances accrued on assets by certain banks of Ukraine belonging to Group 3 were as follows.

	1 January 2023		1 January 2022		
	Allowances on assets, UAH thousands	Share of provisioned assets	Allowances on assets, UAH thousands	Share of provisioned assets	Growth in share
Banks with private capital					
JSC “FUIB”	-15,817,725	-15%	-5,486,172	-5%	-10%
JSC “UNIVERSAL BANK”	-8,661,485	-10%	-2,619,490	-5%	-6%
JSC “A–BANK”	-4,285,717	-25%	-1,573,163	-11%	-14%
Joint Stock Bank “Pivdennyi”	-3,826,791	-9%	-1,385,247	-3%	-6%
JSC “TASCOMBANK”	-3,069,646	-11%	-807,125	-3%	-8%
JSC “BANK CREDIT DNIPRO”	-1,921,975	-11%	-3,171,116	-17%	5%
JSC “BANK ALLIANCE”	-1,076,273	-11%	-521,584	-8%	-4%
PJSC “BANK VOSTOK”	-1,032,797	-5%	-277,813	-1%	-4%
PuJSC “CB “ACCORDBANK”	-804,930	-7%	-490,771	-3%	-4%
JSB “CLEARING HOUSE”	-692,507	-15%	-546,907	-16%	1%
JSC “MIB”	-677,177	-13%	-1,007,979	-30%	18%
PJSC “MTB BANK”	-658,998	-7%	-206,239	-2%	-5%
JSC “CB “GLOBUS”	-457,739	-8%	-260,697	-4%	-4%

4.3. Liquidity and liabilities

Liquidity risk is a risk that arises from our potential inability to meet all of our payment obligations when they fall due or from the fact that we will only be able to meet those obligations at the cost of excessive efforts. The purpose of the liquidity risk management system is to ensure that the Bank can always fulfill its payment obligations and manage liquidity and funding risks within the limits of its risk appetite, as well as ensure a sufficient level of liquidity (liquidity buffer) and comply with the regulatory regulations.

Liquidity buffer

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 2022 amounted to UAH 1,094,457 thousand (at the end of 2021: UAH 1,253,734 thousand);
- Cash on correspondent account with the NBU at the end of 2022 amounted to UAH 435,314 thousand (at the end of 2021: UAH 552,838 thousand);
- Cash on correspondent accounts with other banks at the end of 2022 amounted to UAH 2,312,481 thousand (at the end of 2021: UAH 1,407,765 thousand);
- Investments in securities at the end of 2022 amounted to UAH 6,332,462 thousand (at the end of 2021: UAH 6,310,164 thousand);
- Accounts with other payment systems (B2B Connect) at the end 2022 amounted to UAH 20,388 thousand (at the end of 2021: nil).

Liquidity Coverage Ratio (LCR)

Liquidity Coverage Ratio (LCR) is designed to increase the short-term resilience of the Bank's liquidity risk profile during a 30-day stress scenario. The ratio is determined as the amount of High-Quality Liquid Assets (“liquidity buffer”) that can be used to increase liquidity, which is measured in relation to the total amount of net cash outflows arising both as a result of actual and contingent risks in the implementation of stress scenarios. LCR complements the internal structure of stress testing.

By maintaining the ratio above the minimum regulatory requirements, the Bank seeks to ensure the availability of sufficient liquidity resources (liquidity buffer) to mitigate short-term liquidity stress.

As at 31 December 2022, LCR by all currencies amounted to 198.8556%, with the ratio determined by the NBU of at least 100% (31 December 2021: 168.8601%).

As at 31 December 2022, LCR in foreign currencies amounted to 282.4004%, with the ratio determined by the NBU of at least 100% (31 December 2021: 209.5940%).

Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (NSFR) was implemented by the Bank as part of the requirements of the Basel Committee on Banking Supervision as a benchmark for assessing the Bank's structural funding profile. NSFR is designed to reduce medium- and long-term funding risks by requiring banks to maintain a stable funding profile for their on- and off-balance sheet activities. The ratio is defined as the amount of available stable funding (the share of equity and liabilities that are expected to be a stable source of funding) in relation to the amount of required stable funding (the existing assets with different liquidity characteristics).

As at 31 December 2022, NSFR amounted to 169.7625%, with the ratio determined by the NBU of at least 100% (31 December 2021: 173,3763%).

Funding structure

The Bank’s main tool for monitoring and managing funding risk is a funding matrix (GAP analysis). The Funding Matrix assesses the structural profile of the Bank’s funding for the period of more than one year. To create a funding matrix, all assets and liabilities relevant to funding are mapped into time segments that correspond to their contractual or simulated maturities. This allows the Bank to determine the expected excesses and shortfalls of term obligations over assets in each time period, thus, facilitating the management of potential liquidity risks. The liquidity maturity profile is based on the contractual cash flow information.

From the cumulative term profile of assets and liabilities over 1 year, it is possible to determine any long-term funded surpluses or short-term funded gaps in the Bank’s maturity structure.

4.4. Financial investments

The Bank makes financial investments in reliable financial instruments with fixed yield to obtain a market level of profits at an acceptable level of risk. Decisions regarding investments of the Bank’s funds in the national and foreign currencies into financial instruments are made by the Bank’s collegiate bodies, in particular, the Supervisory Board, the Management Board, and Credit Committee.

Priority directions of the Bank’s investments are investing into the following financial instruments:

- Domestic government loan bonds (including military bonds);
- Bonds of foreign issuers assigned with investment ratings by leading international rating agencies.

As at 31 December 2022, the Bank’s portfolio of financial investments consisted of the following groups of securities:

Financial investments measured at fair value through other comprehensive income:

- Domestic government loan bonds in the national currency – UAH 1,184,159 thousand;
- Bonds of foreign issuers with investment ratings assigned by leading international rating agencies – UAH 742,758 thousand.

Financial investments measured at amortized cost:

- Deposit certificates issued by the National Bank of Ukraine – UAH 4,405,545 thousand.

4.5. Environmental aspects

Disposal of mercury-containing waste, as well as such harmful and environmentally dangerous motor vehicle components as batteries and tires, is one of the priority issues in the topic of environmental protection in our country.

Nowadays, fluorescent energy-saving light sources have almost completely replaced traditional incandescent lamps. They consume much less electricity and provide a much brighter and pleasant spectrum of light, however, they contain dangerous mercury compounds, so the disposal of fluorescent lamps must be carried out in accordance with the established rules, and it is not allowed to throw them into containers intended for ordinary household waste. As with destruction of other harmful waste, the disposal of daylight lamps should be entrusted to specialized enterprises that have the appropriate license.

The Bank has entered into agreements on disposal of fluorescent lamps with such specialized enterprises and disposes of used lamps, thus, complying with the safety regulations and preventing environmental pollution, which is a very important task for maintaining the ecological balance. The problem of collecting and recycling spent car batteries is also very significant at the moment.

End-of-life car batteries pose a risk to human health and the environment due to the materials used in the battery's manufacture. Two types are mainly used: acidic and alkaline. Acidic ones are much more common. Their composition contains dilute sulfuric acid, lead, and a number of other metals. In alkaline batteries, harmful substances include alkali, nickel, and some other components. Even simple plastic from the battery case harms the nature.

The battery can be called the most short-lived part of the car, its average operating time is in total 30 months. In the current conditions, the only reasonable way out of the situation is the organization of a centralized system for collecting spent batteries and other sources of secondary lead scrap and their complex processing, with the receipt of marketable lead and lead alloys.

Thus, the disposal of car batteries is extremely important.

Used batteries comprise the following components:

- Spent lead (in the form of lead plates used as electrodes);
- Electrolyte (battery sulfuric acid with the concentration of up to 40% by mass in a charged state and up to 24% in a discharged state);
- Polymer containers with residues of toxic substances (plastic tanks or a body made of ebonite or polypropylene, separators made of polyvinyl chloride that separate plates with different signs of charge).

All components of spent batteries are dangerous for the environment and human health.

The Bank disposes of used car batteries and hands them over to recycling by specialized enterprises with which the agreements have been concluded, thus, contributing to the fact that the disposal is carried out without harming the surrounding environment, the human body, and in accordance with the legislation.

Also, collection of secondary raw materials (wastepaper) contributes to optimization of the use of the planet's resources and improvement of the environment in cities. Documents with an expired storage period are transferred by the Bank for processing. Given that all major cities have pollution problems, and that up to half of the city's waste is paper products that can be recycled, this challenge of recycling is of great importance. In addition, the paper recycling process requires significantly less electricity than creating new products from wood, which is very good for the environment and the world taken as a whole.

The Bank also disposes of worn-out office and small household appliances (lamps, kettles, safes, calculators, document shredders).

This equipment and devices that have become unusable can be a source of toxic substances that poison the soil and air (plastic housings, lead, and other harmful substances threaten the health of people).

In addition, office equipment and household appliances have electronic filling, sometimes quite complex. Such components are a source of gold, silver, and copper. The process of such useful disposal involves several stages: the body is crushed under a press, then, under the influence of a magnetic field, iron is removed from the mass, and, in the end, everything is burned to leave precious metals.

A similar procedure is possible only when using complex and technological equipment, which is available only at professional companies for the disposal of household and computer equipment.

By using the services of such companies, the Bank contributes to preservation of the environment and reuse of valuable raw materials in new products.

8. Staff policies

Human capital management is one of the most important tasks for the implementation of an effective staff policies in order to ensure further development of the Bank.

As at the end of 2022, the number of the Bank’s employees amounted to 1,184 persons, of which 68% were women and 32% – men. Almost 84% of the Bank’s employees have complete higher education. Over 71% of employees have the age in the range from 25 to 49 years old, with the average age of employees amounting to 43 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 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;
- 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.

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 of own funds of employees.

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

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

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

The Bank’s management, in the conditions of the martial law, has developed the “Action Plan for Bank Employees When Working in Office During an Air Alarm in the Conditions of the Martial Law/Emergency” and created all conditions for the safe work of the Bank’s employees.

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;
- 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.

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.

9. Corporate governance and social responsibility

6.1. Corporate governance

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 No. 2 dated 3 February 2022 and Regulation on Organization of Corporate Governance in PJSC “BANK VOSTOK”, as approved pursuant to Resolution of the Bank’s Supervisory Board.

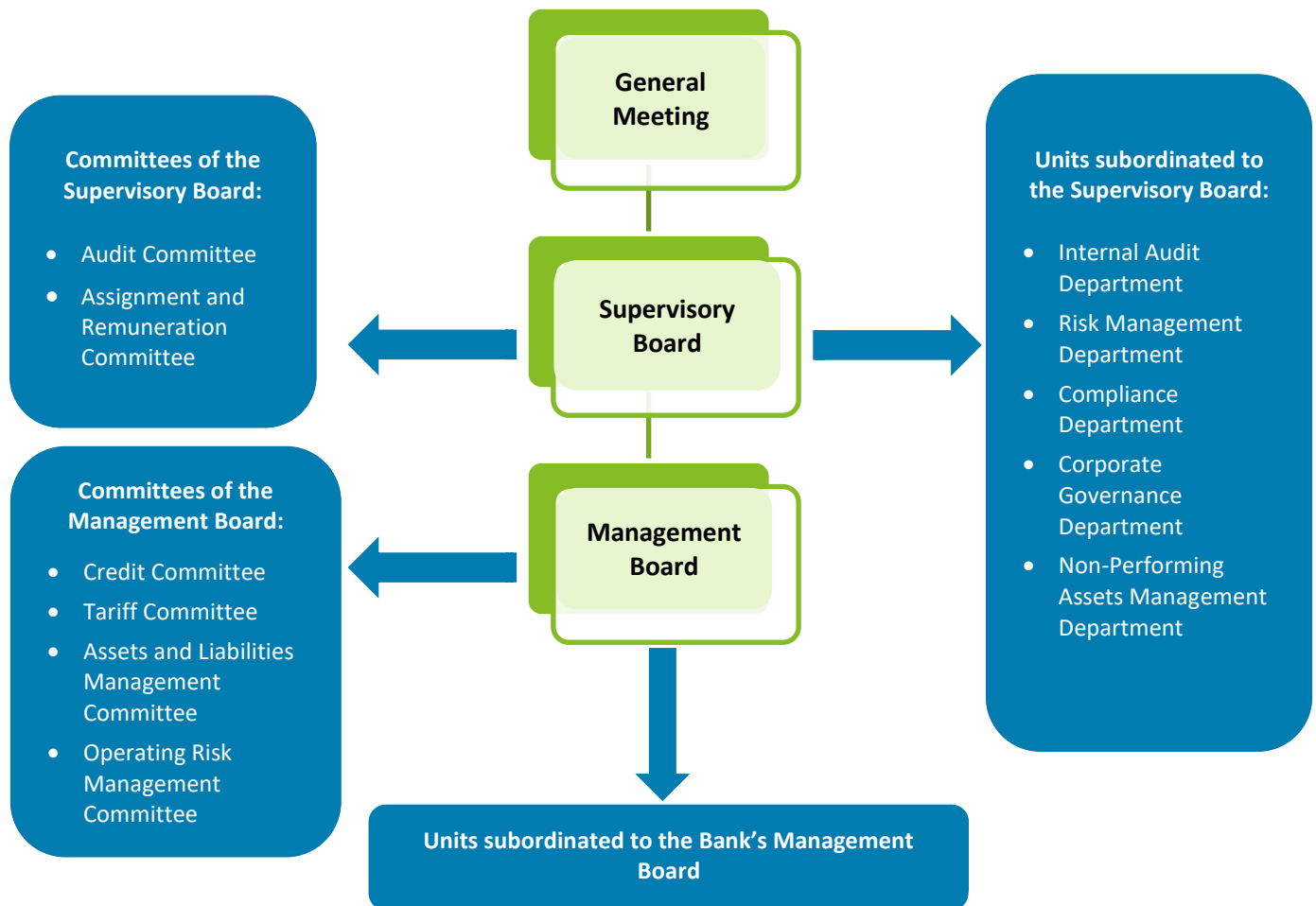
Minutes No. 6 dated 3 June 2022.

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

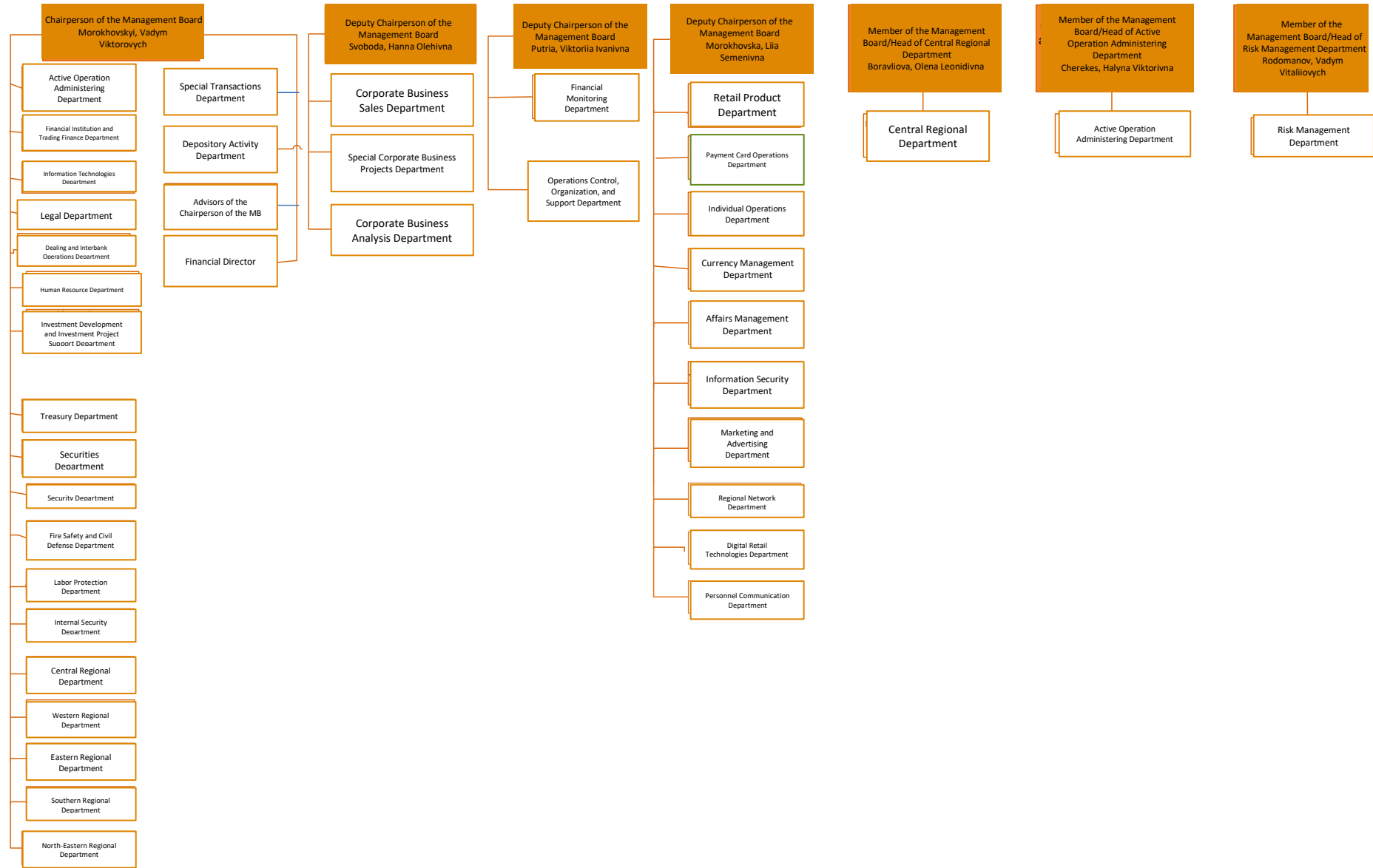
Key principles of the Bank’s corporate governance include the following:

- 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.

Existing corporate governance model as at 31 December 2022:



Existing corporate governance model as at 31 December 2022 (continued)



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Anti-corruption policies are an integral part of the Bank’s Corporate Code. The Bank’s anti-corruption policies are based on the principles and measures established by the Corporate Code.

Anti-corruption policies of PJSC “BANK VOSTOK”, inter alia, presuppose the following:

- Creating effective mechanisms, procedures, controls, and other measures aimed at combating corruption;
- Shaping a zero tolerance to corruption among executives and other employees;
- Shaping a common understanding of the principles of the Anti-Corruption Policies among executives and other employees, customers and counterparties;
- Minimizing risks of involvement of the Bank, its executives, and other employees in corrupt practices;
- Making the Bank’s management bodies aware of the corruption crimes committed by executives and other employees of the Bank and the measures taken in response.

Anti-corruption compliance is an integral part of the Bank’s compliance system.

Main measures to prevent corruption in the Bank’s activities are as follows:

- Implemented control mechanisms to ensure compliance by executives and other employees with the requirements of the legislation on prevention and counteraction of corruption during the fulfillment of their functional duties;
- Restrictions defined by the Bank’s Corporate Code regarding the implementation of representative expenses/representative events and giving/receiving gifts by executives and other employees of the Bank during the fulfillment of their official duties;
- Established prohibitions, norms, and requirements in order to prevent abuse by executives and other employees during interaction with the state authorities, controlling bodies, and their officials, officials of customers and counterparties;
- Trainings and implemented information dissemination measures regarding the Bank’s anti-corruption actions;
- Enshrining the obligation of employees to immediately report attempts to induce them to commit a corruption offense, about corruption offenses committed by other employees/executives or other persons in relation to the Bank or in the interests of the Bank in relation to other persons.

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

At least once a year, the Bank performs a separate assessment of corruption risk based on a combination of main categories of sociological indicators of corruption which are used in international and national practices.

To prevent participation or use of the Bank and its employees in corruption, the Bank ensures control over employees’ compliance with the policy requirements regarding the prevention and counteraction of corruption, bribery, and abuse during the fulfillment of their functional duties, which organizationally has three levels, complies with the internal control policies, and risk management of the Bank.

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The issue of environmental protection is currently of high importance. The Bank has entered into agreements with specialized enterprises on the disposal of spent fluorescent lamps, car batteries, car tires, worn-out office and small household appliances. Also, optimization of the use of the planet’s resources and improvement of environment in cities is facilitated through collection of secondary raw materials, in particular, waste paper. Waste paper is handed over by the Bank for recycling.

6.2. Charity and sponsorship support

During 2022, payments to charitable and sponsorship aid amounted to UAH 13,874 thousand, of which:

Collection of funds for the needs of the army of Ukraine (the NBU) – UAH 1,000 thousand.

Assistance to Charitable Foundation “Myloserdia Viktor” – UAH 7,227 thousand, thanks to which the Foundation purchased the following:

- Motor vehicles for military service;
- Spare parts and applied tools for military vehicles;
- Food products for the population of Mykolaiv (humanitarian aid);
- Protected laptop for military personnel;
- Generators-inverters for a battalion of the volunteer army and military personnel;
- Thermal imaging monoculars for the army;
- Food products for the army;
- Thermal underwear for the army;
- Surveillance equipment to protect public order;
- Components for bulletproof vests;
- Other assistance to army soldiers (including food products);
- Quadrocopters for military service;
- Food products for the Red Cross;
- Masking nets for Mykolaiv School and Odesa Regional Territorial Center;
- staffing and social support;
- A set of independent power supply for the Odesa Military Academy;
- Medicines for the Children’s Clinical Hospital No. 3 of Odesa;
- Various medical equipment and medical products for medical institutions;
- Chambers for storing sterile products, plaster and gauze bandages, cotton wool, other medical products for the Military Medical Clinical Center of the Southern Region.

Also, thanks to charitable assistance from the Bank, the Foundation was able to help territorial defense units, perform repairs at the Invincibility Point, support chess players.

- Recurring charitable assistance to chess organizations, including the Union of Chess and Checkers Clubs in the amount of UAH 316 thousand – the assistance was used to maintain club premises, pay for heating, rent, as well as for holding regional championship in rapid and blitz chess.

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- Charitable assistance in the amount of UAH 156 thousand was paid to PU “Soccer Association of Mykolaivska Region” to develop and popularize football among broad population, conduct different soccer championships and tournaments, and awarding during the competitions held in support of the Armed Forces of Ukraine and Territorial Defense Service.
- Assistance to an orphanage in Odesa – UAH 500 thousand to purchase food products for children.
- Assistance to individuals in the amount of UAH 368 thousand – the assistance to people suffering from serious diseases, as well as those who have found themselves in a difficult financial situation, including as a result of the military actions.
- Charitable assistance in the amount of UAH 950 thousand to CF “Corporation of Monsters” to support the army and Ukraine.
- Assistance in the amount of UAH 250 thousand to purchase fuel for transporting humanitarian aid (according to the letter of the Lviv City Council).
- Assistance in the amount of UAH 600 thousand CF “Public Welfare” to support the army.
- Assistance in the amount of UAH 250 thousand to Association of Jewish Organizations and Communities “Vaad of Ukraine” to assist low-income individuals.
- Charitable assistance to support the Ukrainian culture and popularize the events organized by SE “Kharkiv National Opera and Ballet House” – UAH 500 thousand.
- PJSC “BANK VOSTOK” has the status of a General Partner of the Kharkiv Opera House.
- Assistance for preparation of the National Odesa Philharmonic Orchestra to participate in the Berlin Music Festival – UAH 180 thousand.
- Assistance in the amount of UAH 30 thousand to LLC “IA “Media Inform” in preparing, creating, and disseminating information and analytical programs about the military events in the territory of Ukraine.
- Charitable assistance in the amount of UAH 45 thousand to NGO “Odesa Regional Organization of the National Union of Artists of Ukraine” to help veterans of the Union of Artists.
- Assistance to Charitable Organization “Jewish Fund “Unity of Tribes of Israel” – UAH 39 thousand 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 in the amount of UAH 156 thousand to the Mykolaiv Jewish Religious Community to arrange and hold national holidays, publish the newspaper “Yakhad”, and other religious activities.
- Assistance to Public Organization “World Club of Odesa Residents” – UAH 25 thousand. 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.
- Financial assistance to LLC “D GROUP EXPO-2030” in the amount of UAH 700 thousand for the purpose of promoting and assisting in the preparation of Ukraine (city of Odesa) in the contest of selecting candidate countries for holding the World Exhibition EXPO-2030.

Also, there were other charitable payments made to support the army, as well as to legal entities and individuals.